



**RECONSTRUCTION
OF UKRAINE**

EFFICIENCY • ORGANISATION • FINANCING

WARSAW ENTERPRISE INSTITUTE

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EFFICIENCY, ORGANISATION, FINANCING

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Summary

- The decisive event that will define Ukraine's reconstruction process will be the reaching of terms of peace with Russia. Although authors of other reports avoid this statement, the so-called "pure peace" will be a key factor in maximizing the odds of a successful reconstruction.
- International organizations and allied governments have pledged to begin reconstruction even before achieving peace. From February 24 to August 16, 2022, Ukraine is estimated to have received more than \$100 billion in support, mostly for military and humanitarian purposes.
- Ukraine's rebuilding must be designed to bring it closer to European Union standards, otherwise funding may be significantly reduced. We are talking about the rule of law, inclusiveness or environmental norms.
- The Ukrainian side estimates that successful reconstruction will cost at least \$750 billion over 10 years, of which \$250 billion would come from the private sector.
- An extremely important source of financing could come from Russia's frozen deposits, which already stand at \$300 billion. If the fortunes accumulated in the West by Russian oligarchs were to be seized, or if the remaining Russian reserves (including those accumulated in the Chinese yuan) were to be frozen, the amount of assets earmarked for reconstruction could even increase significantly.
- The reconstruction of key bridges and roads that the Russians could use to transport military columns must be postponed until the conflict is concluded.
- The support of Ukrainian businesses during the war and in the first years after the war will have a key impact on the quality of life in Ukraine in the decades to come.
- Ukrainian companies can become competitive if they are given equal access to capital at prices comparable to that of companies in EU countries. With the increased risk of resumption of conflict once peace is

- achieved, lowering the cost of raising capital will involve economic interventionism.
- Transparency in spending and a well-functioning anti-corruption policy will be both the biggest challenge and a necessary condition for optimal financial support.
 - Stakeholders are pushing for the creation of a single organization with broad international trust to allocate funding, review projects and control how money is spent.
 - Breaking up monopolies, fighting oligarchization, and increasing competition in Ukraine's domestic market will be among the key aspects of economic policy design.
 - Despite a number of legislative solutions and the emergence of more effective instruments to tackle corruption after Euromaidan, it still remains a problem in Ukraine. It will be necessary to appoint international observers in carrying out public procurement from the reconstruction funds.
 - There is a risk that foreign companies may not be interested in entering the Ukrainian market due to low household purchasing power and high political risk. International companies that have operated in the Ukrainian market are likely to continue to do so.
 - Attracting a significant number of Polish companies as part of the reconstruction and expansion project to the Ukrainian market may take place once the energy crisis is resolved and the situation in the country stabilizes.
 - Regardless of the circumstances, Polish large construction companies will be interested in rebuilding the infrastructure. Opportunities for a major new market are also seen by RES companies.
 - Investment funds treat potential investments with caution. An opportunity to attract their capital will be the large-scale privatization of state-owned enterprises.





1. Introduction

The ongoing war in Ukraine raises many questions about the country's future. Currently, no one can determine what the final magnitude of the destruction will be, or what the post-war starting point of the Ukrainian economy will be. We also do not know what territories the new Ukraine will have, but we firmly believe that it will be an independent country, including Donbas, Lugansk and the Crimean peninsula. Extensive reconstruction of Ukraine is planned, with the participation of its allies. **If Ukraine remains in the West's area of influence, and as of the date of the report, everything indicates this, a significant portion of the funds for its reconstruction will come from the European Union, the US, as well as international institutions.** Currently, all stakeholders are preparing for reconstruction financing, having already created some concepts for support. Some of the plans made have already seen the light of day in the form of publications describing the basic premises. This report will review published documents that address how to finance and

rebuild Ukraine, and synthesize them to present the most likely and optimal scenarios for allocating resources for this purpose. In addition to reviewing the solutions proposed by the institutions concerned, we prepared our own proposals, and also reached out to experts.

Chapter 2 describes the necessary circumstances in which Ukraine must find itself in order for the optimistic scenario to be fulfilled, in which substantial resources, both public and private, will stream in to become "a driving force" for Ukraine's economy. The report also outlines potential mechanisms for the disposition of the funds acquired, as well as for controlling and evaluating the effectiveness of the undertaken efforts. In addition, we quote the opinions of experts in the form of interviews so as to compare different visions of reconstruction and development of Ukraine.

For the optimistic reconstruction scenario to come to fruition, in addition to the support of in-

ternational institutions and allied governments, the involvement of private capital will be essential. This report also addresses the incentives and conditions necessary for private capital to be involved in reconstruction, especially in the context of the potential expansion of Polish entrepreneurship into the Ukrainian market after the war. Such expansion is plausible not only because of the unique role of Poland and Poles during the conflict, but also due to territorial

proximity and conducive human resources resulting from the long-standing immigration of Ukrainians to Poland. In order to investigate interest in rebuilding and expanding into the Ukrainian market, we conducted a series of interviews with entrepreneurs from the small and medium-sized business sector, determining what type of companies and industries might be interested in investing or selling their products and services in Ukraine.





2. Circumstances of the war's end and Ukraine's reconstruction success

Every conflict ends sooner or later, but the **way peace is established is the most important factor determining the potential advancement of the country after the war. All the institutions that have prepared proposals for the reconstruction plan omit this aspect**, but there is no denying that the support of individual countries, institutions and especially the private sector will be greater the more secured Ukraine's post-war situation. The risk of nullifying funds earmarked for reconstruction if the conflict resumes could paralyze some decision-makers and make it difficult to negotiate the maximum level of potential international assistance. The private sector will naturally avoid excessive risk, even if the potential returns are higher than those from investments in other markets.

We take into consideration the following scenarios in the Russian-Ukrainian conflict:

- **Scenario A. A slow de-escalation of the conflict**, turning into a ceasefire, resulting in an unexplained border situation, suspended possibility of further diplomacy, and related to the continued functioning of the anti-Ukrainian government in the Russian Federation.
- **Scenario B. Peace** with stipulations on the borders and bilateral relations of Russia and Ukraine, also **with the continuance of anti-Ukrainian authority in Russia**.
- **Scenario C. Peace with stipulations on the borders and bilateral relations of Russia and Ukraine, with a simultaneous reset of Russian-Ukrainian relationships**. Possible probably in the event of the overthrow or death of Vladimir Putin.

The possible scenarios have been ranked in order from worst to best in terms of Ukraine obtaining public or private funds. The first option assumes that the aggressor, due to lack of resources, internal conflicts, or mutinies and insubordination in the army, will limit or suspend hostilities. In such a situation, and with the con-

tinuation of the very same government in Russia, it is difficult to expect a change in the course of foreign policy. In this situation, Russian policymakers are unlikely to change their rhetoric regarding Ukraine, as this would involve admitting they were wrong and denying that military intervention was justified. In this scenario, we should expect more diversionary and terrorist actions, fear propaganda through announcements of the renewal of the conflict. All this is aimed at weakening the rival economically, as well as maintaining anti-Ukrainian sentiment in society. The economic weakening of the rival is defined precisely as incomplete financing of reconstruction and limited public support for Ukraine's development, as well as the lack of private sector interest in either restoration or entry into the Ukrainian market. International institutions and national governments, due to certain foreign policy conventions, will not admit that they will not allocate the full possible pool of funds to finance Ukraine's reconstruction without the certainty that the conflict has already been resolved for good. The Russians understand this, which is why even when they don't have the means to continue an open conflict, they will do everything to sustain the status or the risk of furthering the war.

A change in Russia's policy toward Ukraine could be altered by severe, prolonged sanctions or a power reshuffle at the highest levels of government, including the overthrow or death of Vladimir Putin. In such a situation, the second and third of the indicated scenarios

become realistic. Regardless of the reasons for the change in Russia's rhetoric toward Ukraine, political solutions finalized with the settling of peace terms and, above all, the establishment of a Russian-Ukrainian border acceptable to both sides, will be key to the amount of resources that will be channeled to Ukraine. This would significantly shorten the entire reconstruction process. Otherwise, it is difficult to imagine committing private funds to a country at or at high risk of renewed war. Even if Ukrainian companies fully relaunch production and exports, and business finds a way to operate even with the war behi-

The way peace is established is the most important factor determining the potential advancement of the country after the war.

nd its back, the cost of acquiring capital for Ukrainian companies from abroad will be enormous, as the return on investment will have to take into ac-

count an extremely high risk premium. This may be mitigated by some international guarantees for investors and non-standard solutions for the operation of financial markets, but it is difficult to imagine such solutions in the long-run. Rebuilding Ukraine is not just about modernizing the infrastructure with subsidy funding, but also industry, agriculture, the economic potential of Ukrainian businesses, for which financial, technological support and private sector know-how are essential. Nonetheless, the failure to fulfill the optimistic scenario is not the end for a modern, developing Ukraine. So far, the promises of support look extremely promising and bring some optimism, as the reconstruction plan is to be implemented even if the conflict does not cease. More on the reconstruction implementation proposal in the next chapter of this report.





3. International public support during the war

The war between Ukraine and Russia is still ongoing, but both the Ukrainian government, other allied countries and supranational organizations are already making plans for its reconstruction, as well as securing financing for this massive undertaking. **Ukraine is currently receiving both military and humanitarian financial support. The total value of this support is difficult to calculate, not only because it is so large, but mainly because it often comes through unofficial channels.** The International Monetary Fund on March 9, 2022 decided to allocate \$1.4 billion to meet urgent financing needs and mitigate the economic impact of the war¹. **Devex estimates that Ukraine received more than \$100 billion in support between February 24 and August 16, 2022**, adding up 850 independent sources of funding, taking into account official government statistics as well as support from various organizations². However, we know that

this is not the total support that has been provided to Ukraine. It should be recognized that part of the support has already been partially used in the Ukraine's reconstruction process. This is especially true of critical infrastructure, which suffered mainly in the first month of the war and had to be rebuilt immediately to allow the community to function in a quasi-normal way. Reconstruction concerns the basic infrastructure of roads, railroads, energy, water supply. However, major infrastructure investments were interrupted with the start of the war, and Ukravtodor, the Ukrainian equivalent of the General Directorate for National Roads and Motorways, is focusing primarily on restoring the trafficability performance of damaged roads. Also vital to them is the construction and maintenance of treadway bridges, which replaced the original ones blown up to prevent the Russians from reaching deep into Ukraine

¹ International Monetary Fund, *Ukraine: Request for Purchase under the Rapid Financing Instrument and Cancellation of Stand-by Arrangement—Press Release; Staff Report; and Statement by the Executive Director for Ukraine*, Country Report No. 22/74, Washington, D.C. 2022.

² <https://www.devex.com/news/funding-tracker-who-s-sending-aid-to-ukraine-102887>, accessed on 27.08.2022 r.

territory easily³. **Given the circumstances, the reconstruction of key bridges and roads that could be used by the Russians to transport military columns must be postponed until the conflict is resolved.**

behalf of the Ukrainian government to coordinate reconstruction. The platform is intended to serve as a comprehensive tool for setting priorities, presenting needs, approving projects, monitoring progress and results.

Both the European Commission⁴, and the OECD are⁵ unanimously promoting their platform connecting all stakeholders with an institution on

³ <https://logistyka.rp.pl/drogowy/art36507591-ukraina-juz-odbudowuje-mosty-i-drogi-potrzebne-milardy-euro>, accessed on 27.08.2022 r.

⁴ European Commission, *Ukraine: Commission presents plans for the Union's immediate response to address Ukraine's financing gap and the longer-term reconstruction*, https://ec.europa.eu/commission/presscorner/detail/en/ip_22_3121.

⁵ OECD, *The architecture of infrastructure recovery in Ukraine*.





4. Review of the concept of the reconstruction process of Ukraine

The most important conference on Ukraine's reconstruction process and its financing was an event held on July 4-5 in Lugano called "Ukraine Recovery Conference URC2022". It was attended by representatives of the governments of all European countries that strongly condemn the invasion: the US, Canada, Japan, Korea, Australia, as well as representatives of the Council of Europe, the European Commission, the European Bank for Reconstruction and Development, the European Investment Bank and the Organization for Economic Cooperation and Development. At the conference, an outline of an action plan was created. In addition, it seems that binding words were spoken there regarding the reconstruction of Ukraine (although the document summarizing the conference has no legal force). The full commitment of the countries-participants of the conference through support during the war, as well as the reconstruction process, was declared. Below is

a synthesis of the goals set out at the Lugano conference.

Principles of operation behind the reconstruction⁶:

1. Cooperation.
2. Domestic reforms.
3. Transparency, accountability and the rule of law.
4. Self-governance and social co-responsibility for decisions.
5. Reconstruction with the participation of all stakeholders.
6. Gender equality.
7. Sustainable development.

Ukraine In defining the principles, attention was paid to the values that have been strongly emphasized for several years among highly developed countries, especially in the European Union, which has officially given Ukraine membership

⁶ Outcome Document of the Ukraine Recovery Conference URC2022, Lugano Declaration, Lugano 2022.

candidate status⁷. It emphasized the need for internal reforms, placing them, not coincidentally, second among the objectives, **as Ukraine's problems of corruption, malfunctioning democracy, monopolization and oligopolization of the market, including the privileging of oligarchs, were known even before the outbreak of war in 2014**. The reconstruction of Ukraine will take place in such a way as to make Ukraine a fully democratic country, thanks to the involvement of the local community, the Ukrainian government, business entities, and all other stakeholders. This will only be possible if clear legal rules are adopted and the financing of the entire process is transparent. Importantly, the reconstruction is to be carried out in accordance with the highest environmental standards, transforming the raw material-based economy into a modern, environmentally friendly, sustainable economy. Its modernity, economy in the context of the use of raw materials, is to be the starting point for innovation and entrepreneurship for future generations of Ukrainians.

Severe damage and economic losses call for widespread action, and the revival brought about by the scale of the money injected into the economy from outside can be a boost to the country's modernization. Reconstruction is an opportunity to create a strong economy resistant to fluctuations, characterized by strong domestic demand modeled on the post-1989 reformed Poland. In order to make the most of this opportunity, Ukraine needs to build a strong foundation for international trust so that the public will believe that the funding for state reconstruction will be spent properly and transparently to the institutions funding the process. This will consequently attract the widest possible number of reconstruction participants along with the highest possible financial resources.

Ukraine should establish an institution to centralize reconstruction planning, as well as coordinate the entire process.

A government that embraces this task will carry out or continue many of the reforms already underway. It will have to establish the proper functioning of the judiciary, put in place an effective anti-corruption policy and digitization to enable efficient management, transparency and evaluation of the results of taken actions. The conference's summary document also stresses the importance of leveraging international know-how, as well as the need to involve NGOs, business and universities for comprehensive, inclusive cooperation.

The conference served to define the goals and how to achieve them. Given the preliminary nature of the assumptions made, it is up to the Ukrainian side to define specific goals, as well as to create KPIs (key performance indexes) that will measure results and confront them with the expectations set before the start of the process. The National Recovery Council (NRC) is now to be responsible for working out the details of the plan. Its publication, which saw the light of day in August 2022, will also be the subject of analysis in this report.

According to the Lugano Conference, Ukraine should establish an institution to centralize reconstruction planning, as well as coordinate the entire process. Currently, these responsibilities are likely to be carried out by the aforementioned National Reconstruction Council. It would be accountable to the authorities overseeing the expenditure of funds, which would be international institutions, and would report on these issues to the Ukrainian parliament and President. According to the conclusions of the Lugano conference report, it should be crucial for Ukraine to spend resources in such a way as to slowly bring the country's performance up to European Union standards and enable Ukraine to become a member of the EU. This

⁷ K. Nieczydor, K. Calus, *Początek długiej drogi. Ukraina i Mołdawia kandydatami do UE*, <https://www.osw.waw.pl/pl/publikacje/analizy/2022-06-24/poczatek-dlugiej-drogi-ukraina-i-moldawia-kandydatami-do-ue>, OSW, accessed on 11.09.2022 r.

would ensure long-term access to EU funds and sustainable economic development⁸. The coordinating institution will plan the activities of subordinate government institutions, expert teams or institutions operating at the municipal level. However, it is stressed that not only government institutions must be involved in reconstruction, but the participation of the non-state sector, namely NGOs and business, will be extremely important. This will not be possible without transparency and citizen-centeredness, i.e. an inclusive approach to managing the reconstruction project.

The document summarizing the Lugano conference also covers the issue of funding sources for reconstruction. An international online platform for soliciting donations – United 24 – is now up and running, and is available to all possible partners (international organizations, governments, state agencies, charities, businesses or individuals) around the world. Another example of the emergence of accounts and platforms that have been created to consolidate international aid to Ukraine includes the account created for Ukraine by the IMF. The above measures are actually a prelude

to negotiating aid tranches in the context of reconstruction.

The next step will be to work out mechanisms for seizing Russian assets so that they will also contribute to the financing of reconstruction, being a war contribution, so to speak. Just days after the invasion of Ukraine began, Russian foreign exchange reserves were frozen, as well as those stored in gold. According to information provided by the Minister of Finance of the Russian Federation – Antony Siluanov, the current value of assets out of Russia's control is approx. \$300 billion⁹.

These are funds accumulated in Western banks to which the Russians have lost access. It is estimated that apart from them, Russia has approx. \$340 billion of reserves, which include, among others, those deposited in the Chinese yuan with a value of approx. \$100 billion. China was a tacit ally of Russia during the initial phase of the war, however, since the beginning of September, the narrative of the Chinese authorities has changed, which may mean that the Russians will also have trouble recovering their reserves in Chinese currency¹⁰.

⁸ Ukraine Recovery Conference URC2022, *Policy briefs on Ukrainian recovery*, Lugano 2022.

⁹ <https://businessinsider.com.pl/finanse/zamrozenie-rosyjskich-rezerw-sankcje-zamrozily-300-ml-dolarow/88wf4ww>.

¹⁰ <https://biznesalert.pl/chiny-rosja-blokada-waluta-rezerwy>.



There has been some talk among politicians in European Union countries, in fact, since the beginning of the Russian invasion, about financing the reconstruction of Ukraine from Russia's frozen \$300 billion in reserves. This was confirmed by, inter alia, the Union's High Representative for Foreign Affairs, Josep Borrell¹¹, in an interview with the Financial Times on May 9, 2022. Joe Biden also expressed a similar opinion at the end of April¹². No decisions have yet been made on the way, as well as the legal basis, to use these funds during Ukraine's reconstruction. In addition to Russian reserves, the seizure of the fortunes of Russian oligarchs spread around the world could provide significant support. This concept is even more difficult to implement due to the legal and moral aspects regarding the seizure of private property.

Ukraine should strengthen mechanisms for reasonable budget planning in order to rely increasingly on own resources in the long run. As a matter of principle, the reconstruction process should focus on the rules of transparency and accountability in order to increase the efficiency of fundraising and build international trust among those financing Ukraine's modernization¹³. The document did not mention the specific sums planned by each institution, which shows that negotiations on the final amount of support are yet to come.

Infrastructure reconstruction will be a major challenge. War damage varies depending on the region. Of course, the largest ones are in the regions bordering Russia, but also those bordering Belarus. **Reconstruction will be called a success if war refugees decide to return and settle in the areas most affected by the war.** Once the war is over, an extensive audit will be

needed to determine the full extent of the damage, as well as the most important goals and methods of infrastructure rebuilding. Although losses are being estimated by the Ukrainian side on an ongoing basis, the final and exact extent of the damage will only be assessed after the war. According to the conference, infrastructure reconstruction will focus on three aspects¹⁴:

1. Build the infrastructure to establish a competitive business.
2. Restoration of adequate housing infrastructure for the population.
3. Creation of convenient development infrastructure to enable the growth of individuals and an adequate quality of life.

Obtaining comprehensive information on the total amount of damage caused in Ukraine as a result of the war will not only allow to identify gaps in the existing infrastructure, but also make it possible to sue for damages in international tribunals. Reconstruction will not necessarily be geared toward recreating the pre-war condition, but rather to create a space that is good for

the development of individuals, businesses and welcoming to live in for its future residents. The purposefulness of each

infrastructure project will be analyzed in the context of the current needs of the population and businesses. Individual projects will be given appropriate implementation priority and will be aligned with complex land use plans and city master plans. The projects will promote green and digital transformation in line with the most up-to-date European standards¹⁵.

As part of building the proper infrastructure for business, regulations for the construction and existence of industrial parks will be revised, and a program will be launched to acquire

The reconstruction of Ukraine will be a success if war refugees return and settle in the areas most affected by the war.

¹¹ <https://www.rp.pl/konflikty-zbrojne/art36258021-pomysl-na-finansowanie-odbudowy-ukrainy>.

¹² <https://www.money.pl/pieniadze/siergiej-lawrow-ostro-o-pomysle-ue-to-kradziez-6767608294488960a.html>.

¹³ Ukraine Recovery Conference URC2022, *Smart recovery architecture*, Lugano 2022.

¹⁴ Ibidem.

¹⁵ Ibidem.

direct investment throughout the country. This is expected to attract a number of greenfield investments, significantly upgrading Ukrainian industry. A number of privatizations of state-owned enterprises and assets are also expected to be important, creating opportunities for brownfield investments (giving new functions to existing land and facilities). Another important initiative for business is the reconstruction of transportation infrastructure. This includes roads, bridges, but also railroads and air transport. The transportation system must be integrated with the EU one so that future trade with European countries will not encounter infrastructural limitations. For this purpose, among other things, there are plans to bring the width of railroads into line with EU measurements. **According to the Lugano conference, infrastructure development must take into account the conversion from traditional fuels to electromobility**¹⁶.

Housing development will have to meet the needs of all those who lost their homes during the war. Temporary shelter should be made available to them first, then they should be able to find long-term housing. The housing infrastructure even before the war was not in the best condition, the vast majority of buildings were more than 30 years old, and they were rarely renovated. After the war, housing should be brought to a state where residents have access to running water, buildings are insulated and systems energy efficient. This will significantly reduce GHG emissions. Housing estates must gain access to educational, sports, cultural and tourism, health, safety and security infrastructure, which will ensure a high quality of life¹⁷.

The document summarizing the Lugano conference also indicated how to rebuild Ukraine's economic potential after the war. Here are the key points outlined in the document.

1. Stability of public finances. Ukraine should seek to slim down and rationalize its fiscal policy to make it more efficient.

- 2. Economic freedom.** Economic law must be liberalised. It is noted that Ukraine needs to complete privatization, as well as reduce interventionism in domestic markets.
- 3. Integration with the European Union.** Foreign entities should be permitted to enter the Ukrainian market and, at the same time, Ukrainian entities should be allowed to participate in the European community market.
- 4. Access to Knowledge.** Thanks to the integration of markets, there will be a transfer of knowledge and technology to Ukrainian entities
- 5. Development of the financial system and access to funds.** The integration of the European Union and Ukrainian financial markets will enable less expensive financing of Ukrainian projects. It is also necessary to revive the financial market available to businesses and citizens in Ukraine, while creating such tools that allow access to capital at prices that do not take into account the above-normally high risk of investment in Ukraine.
- 6. Transformation of priority segments of the economy.** Ukraine should focus on building innovation and increasing its relevance to the global economy by moving up in the global supply chains' system. This must involve a partial shift from the sale of raw materials and agricultural crops to more complex products.

It is critical for long-term success to build macro stability into Ukraine's economy. The first step to achieve this is success in negotiating international support during the war. It should be noted that in connection with defense expenditures and humanitarian support to its citizens, **Ukraine has almost doubled its spending, with a significant decrease in budget revenues.** As a result of the war, GDP is likely to fall by about 45 percent. The only way to balance the budget is through international subsidies and loans. If Ukraine gets to grips with budgeting under such difficult conditions, while negotiating high-value

¹⁶ Ibidem.

¹⁷ Ukraine Recovery Conference URC2022, *Infrastructure recovery*, Lugano 2022.

aid packages, there is a good chance that macroeconomic stability will be quickly achieved after the war. This will create the conditions for negotiating further aid packages, as well as lend credibility to Ukraine as a foreseeable, stable debtor, lowering the interest costs of reconstruction financing.

A number of changes must take place in the Ukrainian financial market. The government has considerable room to maneuver in this area, as many institutions in the Ukrainian financial market are state-owned. In addition, the state as a regulator can influence market processes. All measures are designed to keep the cost of raising capital for businesses low, and the capital itself, above all, widely available.

Key to Ukraine's post-war economic development will be integration into the European community. It will allow full integration of markets, increasing the already rapidly growing trade volume between Ukraine and the European Union. The entry of Western companies into the Ukrainian market will help lower the knowledge gap and the technology gap, which is extremely important in terms of innovation in the Ukrainian economy.

Demographics will be a major challenge in post-war Ukraine. Emigration due to the war is causing an exodus of the best-educated, enterprising citizens. This has an extremely negative impact on human capital, and it is referred to as the driving force of modern economies. It is necessary to ensure that economic and wartime emigrants are encouraged to return to their homeland through labor activation programs, as well as programs that expand access to schools and kindergartens, enabling child care. Of course, despite such programs, not all emigrants will choose to return, but the Ukrainian government must make every effort to make sure that as many of them will return as possible. Ukraine should take care of the national identity of those who have remained abroad, and

create programs with a long-term perspective to encourage the return of the next generation of Ukrainians raised outside the country. In addition, it is worth creating incentives for citizens of other countries to study or work in Ukraine. Specialists should be encouraged with grants, competitive tax laws, interesting prospects, so as to attract so-called „digital nomads”¹⁸.

The priority of the project will be to reconstruct infrastructure and the economy as quickly as possible. The ultimate goal of reconstruction is to ensure decent living standards for all the country's residents. The social policy of post-war Ukraine will have to address important social issues, in particular: social protection, health care, education, culture and information policy. Social policy will include programs on returning Ukrainians to their homeland, support for war-affected children and war veterans, especially those with disabilities.

For social issues, the summary document of the Lugano conference describes the five most important issues. These are:

1. Education and science
2. Culture and information policy
3. Youth development and sport
4. Health care system
5. Social protection

It is noted that both scientific, cultural, sports and health care institutions have suffered infrastructurally as a result of the war effort, but also in terms of personnel as a result of the large emigration from Ukraine. The key will be to rebuild their capacity to take care of the education and proper development of future generations of Ukrainians. A major challenge may be to train new teacher cadres on such a large scale, in a short period of time.

Another key challenge pointed out at the Lugano conference will be the provision of proper medical care, which will be a particular challenge due to the high number of war casualties,

¹⁸ Ukraine Recovery Conference URC2022, *Economic recovery*, Lugano 2022.



whose treatment can be chronic. This includes children who will need long-term mental health care after the trauma of war. **Social policy must be designed to take into account the huge number of people wounded in war who will not return to full capacity. Some of them will have performances limitations that will prevent them from doing certain jobs.** One of the tasks of institutions implementing social policy will be to adapt war veterans to post-war realities, so that they can live a decent life even if their condition is limited¹⁹.

Along with culture, an important issue highlighted at the conference is information policy. Conducting an appropriate policy is crucial because of the advanced disinformation techniques used by the Russians. Establishing

a democratic society cannot succeed without rejecting Russian propaganda that spreads disinformation not only in Ukraine, but also in its allied countries. Propaganda is trying to convince the societies of various countries about the legitimacy of the special operation, as the full-scale Russian-led armed conflict in Ukraine is called. **A proper information policy is essential to present the world the true story of the war, the destruction, and the social impact of the events happening in Ukraine.**

The document summarizing the Lugano conference also recognizes the need for Ukraine's energy and environmental transformation. Despite some successes over the past five years, Ukraine has struggled with a high-carbon economy. **This is due to the incompetence of the**

¹⁹ Ukraine Recovery Conference URC2022, *Social recovery*, Lugano 2022.

authorities and the country's failed economic transformation in the past. However, the reconstruction of Ukraine could be a huge boost to improvements in this area. **Energy and environmental transformation, in addition to environmental concerns, has a practical aspect for Ukraine. Firstly, it will enable independence from Russian fossil fuels, and secondly, it will speed up accession to the EU by aligning with EU energy standards.** The transformation is to be based on four points²⁰:

1. Coordinated climate-architectural policy that will enable the involvement of funds under the ecological funds allocated by the European Union, in addition to funds for the reconstruction of Ukraine.
2. Rebuilding infrastructure according to the principles of resource saving and acquiring clean, green energy. This means that the rebuilt infrastructure would use the most up-to-date technologies, so that, for example, it would waste as little heat as possible, use energy as efficiently as possible, and produce energy by itself, for example, through photovoltaic panels.
3. Building a green economy in which industry will create eco-friendly products using energy that is also generated in an eco-friendly way.
4. Preservation of biodiversity, through environmental protection and sustainable use of raw materials.

The plan outlined in Lugano is extremely ambitious. It should be remembered that even if Ukraine manages to obtain satisfactory funds for reconstruction, it will face many challenges beyond financial issues. It is estimated that 305 bridges, 24,700 kilometers of roads, 6,500 kilometers of track or traction were destroyed by the date the Lugano conference began²¹. The reconstruction of Ukraine will only be able to gain proper momentum with the restoration of basic transportation hubs that allow free transportation within the country.

Another major challenge is the dependence on raw materials from Russia. During the switch to a war economy, massive support in energy resources is being provided by allied countries, but Ukraine will have to reorganize its energy infrastructure once the war is over. It will be a huge challenge to find replacement housing during and immediately following the war for the huge number of Ukrainians who lost their homes. Given that one of the main goals is to encourage Ukrainian emigrants to return, housing may be the biggest barrier for the return program to take off immediately after the war. **It can also be assumed that the longer Ukrainian citizens stay in exile, the lower their willingness to return, which becomes an additional challenge for a potential repatriation program.**

Another risk that could jeopardise the work of many people for the reconstruction of Ukraine is the risk of corruption. In order to avoid the negative consequences of corruption, decision-making processes for tenders and evaluation of spent funds are to be fully digitized so that information on the allocation and spending is publicly available. Human resources are also a certain constraint to the reconstruction of Ukraine, especially after the great wave of emigration of young educated people. Admittedly, Ukraine's government administration is increasingly ready to implement such a demanding reconstruction plan, but it still lacks the necessary managers, especially at the local level. In addition to management staff, it will be necessary to find qualified construction workers, including building engineers, but also those from other fields such as energy, manufacturing engineering, etc. A potential lack of adequate staffing may underestimate the cost of reconstruction. On the other hand, underestimating costs may result in increased budgets for wages during the reconstruction project, making it easier to attract expatriates who left Ukraine before and during the war, as well as skilled workers from other countries.

²⁰ Ukraine Recovery Conference URC2022, *Environmental recovery*, Lugano 2022.

²¹ Ukraine Recovery Conference URC2022, *Challenges and opportunities for the infrastructure*, Lugano 2022.

The conference in Lugano was largely based on the solutions prepared by the National Council for Reconstruction of Ukraine, which is an advisory body to the President of Ukraine.

The council was established by the Ukrainian party to develop a post-war plan for the reconstruction and development of Ukraine. As a nation affected by the war, but also a beneficiary of the support, Ukraine is likely to be largely autonomous in the distribution of funds. Moreover, it is the Ukrainian government that has the most knowledge and tools to study where and which funds are most needed. Supporting countries, as well as international institutions, will advise, accept and supervise the funds they provide, but the Ukrainian government and the institutions set up by the government to plan and coordinate reconstruction will face the most significant task. This is why the National Council for Reconstruction of Ukraine was established, and its objectives are²²:

1. Identification and preparation of proposals for priority reforms, the implementation of which is necessary during the war and post-war period;
2. Preparation of strategic initiatives, draft regulations, the approval and implementation of which are necessary for the effective functioning and reconstruction of Ukraine in the war and post-war period.
3. Presenting, negotiating, obtaining approval, and ultimately coordinating the reconstruction plan with the involvement of state authorities, local government departments, representatives of civil society organizations, as well as international ones.

The National Council for Reconstruction of Ukraine has created a document entitled: "Ukraine's National Recovery Plan", in which it proposed a Ukrainian vision of reconstruction. According to the publication, the target plan is not only an opportunity to rebuild Ukraine, but is also a hope for a leap in economic growth and

a significant improvement in the quality of life in Ukraine. **As the authors noted, over the past 20 years, Ukraine's average economic growth has been less than 2 percent per year, where Poland saw 3.5 percent annual growth over the same period²³.** That's why Ukraine's goals are: to rebuild as quickly as possible, to create opportunities for sustainable, stable economic growth based on sound economic fundamentals, environmental care, and inclusive development and public satisfaction.

The Ukrainian reconstruction plan begins by defining key principles for implementing it:

1. **Immediate start of reconstruction and gradual systematic progress.** Reconstruction should be carried out even if there is a risk of further hostilities without waiting for the so-called "pure peace".
2. **Equitable development.** Carry out reconstruction in an inclusive, non-discriminatory manner for individuals or other social groups.
3. **Integration with the European Union.**
4. **Modern reconstruction.** The infrastructure that will replace the destroyed infrastructure must be more serviceable, more eco-friendly, than the one that was destroyed.
5. **Maximum involvement of the private sector for reconstruction in both investment and project execution contexts.** The reconstruction process should develop a strong small and medium-sized business sector, which should remain a pillar of the Ukrainian economy even after reconstruction is completed.

The National Council for Reconstruction of Ukraine would serve as the coordinator of the entire reconstruction project and would report directly to the Ukrainian president. International institutions would be an advisory body, responsible for expert support, analysis, but would not have an oversight role²⁴. This is, of course, a Ukrainian

²² <https://www.kmu.gov.ua/en/national-council-recovery-ukraine-war/about-national-council-recovery-ukraine-war>, accessed on 07.09.2022 r.

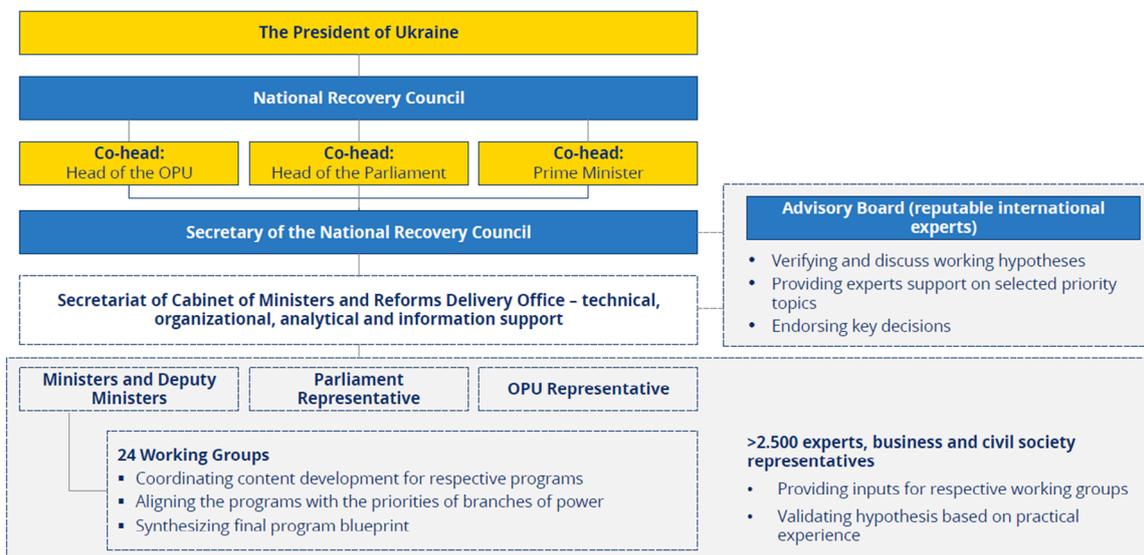
²³ Ibidem.

²⁴ National Recovery Council, *Ukraine's National Recovery Plan*, Ukraine 2022.

vision; however, the lack of direct supervision by international institutions could undermine confidence in the plan and limit the ability to obtain funds. In this situation, the Ukrainian administration will probably have to make concessions and accept partial authority from external supervisory authorities. Despite the overwhelming confidence in Volodymyr Zelenski and the current Ukrainian government administration, the problems of corruption in Ukraine before the war are not forgotten. Therefore, full autonomy of the Ukrainian authorities in this regard, is unlikely to be possible.

The National Council for Reconstruction of Ukraine is to be managed mainly by the head of the Ukrainian President's Office, the Prime Minister, the Chairman of the Parliament. It would be subordinate to 24 working groups headed by the respective ministers of the Ukrainian government. The full scheme proposed by the National Council for the Reconstruction of Ukraine can be found below:

Figure 1. Diagram of the organizational structure in the context of planning and management of the reconstruction project



Source: National Recovery Council, Ukraine's National Recovery Plan, Ukraine 2022.



The Ukrainian government is taking on extremely ambitious goals. Ultimately, a strong, European Ukraine is to be a magnet for foreign investments, and success on several levels will be necessary to achieve this. Undoubtedly, one of the key steps identified by the Ukrainian authorities as strategic will be European integration and gaining access to the markets of the G7 countries. In a sense, the European Union has already given the green light to Ukraine's accession to the EU, granting it candidate status²⁵. The ongoing war has not hindered the status, and in fact has helped put pressure on the Union, especially on some hesitant member countries. However, as CEPS Policy Insights points out, accession will not be possible as long as peace is not achieved, as this could entail an escalation of conflict and even the risk of nuclear war²⁶. Ukraine's integration into the EU will be possible if it complies with the Copenhagen criteria, and aligns its policies in line with the EU's key challenges, i.e., adapting to the European Green Deal policy, as well as other goals prioritized by the European Union.

The next strategic step is to achieve internal and external security. Despite the fact that the country is engulfed in war, successes on the frontline lead one to believe that this is achievable. This is a prerequisite for entry into the European Union, as well as for limiting the investment risks of private investors, without whom the reconstruction of Ukraine cannot be translated into economic and social success. Of course, these are not the only conditions for achieving macro-stability. This will require a rational fiscal policy, a significant reduction in corruption, a well-functioning judiciary, transparent and pro-entrepreneurial economic laws, restoration of the banking system and financial markets in a way that inspires confidence among its participants,

Ukraine also intends to contribute to European innovation.

and support for Ukraine's SME sector, including allowing this sector access to capital and an adequately skilled workforce. Once the indicated main goals are achieved, the Ukrainian government will focus on the transformation of key economic sectors, strengthening social capital, efficient and environmentally friendly infrastructure. The implementation of these three points, is expected to complement the success of Ukraine's reconstruction and, above all, improve the quality of life of the population.

The authors of the Ukrainian strategy point out that Ukraine's reconstruction can have a positive effect on EU economies through synergy effects. A number of investments in Ukraine will help boost demand in the European market, as well as help strengthen supply chains, particularly to critical resources: food and certain raw materials.

The accession of Ukraine will help strengthen physical security with a combat proven army defending the eastern flank, as well

as energy security with Ukraine's existing infrastructure. In addition, Ukraine is renowned for its high-quality cyber security, which could strengthen the EU's capabilities in this area. **Ukraine also intends to contribute to European innovation, and evidence of its potential is its high 3rd place in terms of innovation among lower-middle-income countries²⁷.**

According to management doctrines, each plan should have a real, measurable goal to achieve. It is no different with the plan of the Ukrainian reconstruction. **Ukrainians have set as their goal economic growth of more than 7 percent year-on-year, a 65 percent reduction in CO₂ emissions compared to 1990, and to be among the top 25 countries in the economic complexity index, as well as in the HCI,**

²⁵ K. Nieczydor, K. Catus, *Początek długiej drogi. Ukraina i Mołdawia kandydatami do UE*, <https://www.osw.waw.pl/pl/publikacje/analizy/2022-06-24/poczatek-dlugiej-drogi-ukraina-i-moldawia-kandydatami-do-ue>, OSW, accessed on 11.09.2022 r.

²⁶ M. Emerson, S. Blockmans, V. Movchan, Am Remizov, *Opinion on Ukraine's application for membership of the European Union*, CEPS Policy Insights, Brussels 2022.

²⁷ Ibidem.

which stands for human capital index. These goals would be met if the overarching goal of acquiring investments with a total cumulative value of at least 750 billion U.S. dollars in the reconstruction project is achieved. All this in the time horizon until 2032²⁸.

Ambitious plans require ambitious reforms. The Ukrainians realize that in their country the problem is not only the war, but also many years of negligence and bad decisions. Restructuring must address most aspects of the country's performance. Among other things, the changes in business law will be aimed at bringing the Commercial Companies Code in line with those in effect in European Union countries. **In addition to the abovementioned anti-corruption policy, the so-called deoligarchisation of the country is necessary.** It will allow the market to function more efficiently, develop the small and medium-sized business sector, reduce leverage by the oligarchs over public institutions, thereby strengthening the latter. The final step to improve market performance will be to complete the privatization of enterprises in non-key industries, as well as the corporatization of strategic enterprises. This will be tantamount to remodeling the operation of the Treasury.

Another institution with too much influence over Ukraine's functioning was the Ukrainian Security Service, which since the fall of the USSR has more or less had Russian agents working against the country, as well as obtaining information on the enemy. Other institutions will also have to undergo some transformations. They will focus on the full digitalization of offices, as well as the maximum possible transparency in their operation, which is linked to the implementation of anti-corruption policies. Digitization will also include any state records, which must first be centralized. The whole thing is expected to lead to easier access to public services, as well as support the assumed professionalization of offices.

The target amount of funds to be absorbed by the Ukrainian economy over 10 years of reconstruction and modernization would be a minimum of \$750 billion. Ukrainians estimate that one-third of these funds would be from private investment while the rest, or the remaining at least \$500 billion, would come from grants, loans and own funds. At least USD 250 billion would be non-repayable grants from partners, mainly the EU.

The Ukrainian government estimates that \$65 billion of the aforementioned \$750 billion is an immediate cost. The necessary current funds will be spent on defense, on securing energy resources, on the day-to-day efficiency of the state, which must carry out its functions, and on supporting the small and medium-sized business sector so that it can survive in wartime conditions. Part of the funding will also be used for the ongoing repair of critical infrastructure. Maintaining state liquidity is crucial to maintaining Ukraine's credibility as a debtor. Undoubtedly, the non-bankruptcy of Ukraine, as well as the absence of excessive debt, will contribute to faster recovery of macro economic stability after the war, as well as sustain the potential of Ukrainian companies, especially those that perform contracts to the state. Other firms that do not operate on the basis of government expenditure should also receive efficiency support. If they don't collapse during the war, the absorption of pro-development funds in the future, aimed at the SME sector, will be much easier, and will also reduce for companies the cost of capital raised from the financial sector.

Ukraine expects a five-year reconstruction period starting in 2023, which will cost about \$300 billion. Most of the funds will be spent on infrastructure: including energy infrastructure, housing, and transportation infrastructure. This will be a time when a large portion of funds will still have to be spent on armaments. Regardless of the outcome of the war, Ukraine must have deterrence capabilities to avoid a resumption

²⁸ Ibidem.



of the conflict. The post-war period will be difficult for Ukrainian companies, even if domestic demand increases dramatically. Government documents assume that subsidies will be necessary, as well as development support, bank guarantees so as to enable companies to raise capital. Reduced post-war economic activity will help keep budget revenues low, not much higher than during the war. This will cause the Ukrainian government, in part, to have to be financed from outside in order to remain liquid and credible. This will avoid overwhelming public debt and ensure macroeconomic stability.

The last phase, which is to begin 5 years after the end of the war, is to be the modernisation of the economy. It is expected to cost more than \$400 billion, which is likely to consume the most funds. The Ukrainian government assumes that the way the funds have been spent in the first five years will convince stakeholders that Ukraine is rationally spending the grants it has obtained. In addition, the five-year peacetime period is expected to convince the private sector

that Ukraine is a relatively safe country to invest in. That is why the largest amount is expected to be absorbed by the Ukrainian economy only in the final period. 5 years after the conflict, large infrastructure investments will continue, but smaller investments in green energy and energy independence will become increasingly important. During this period, increased spending on social infrastructure, namely the health care system, education, culture and sports will begin. This will involve a significant reduction in subsidizing enterprises, which should be able to cope with liquidity and competitive market conditions on their own. Especially since a huge market of the European Union will open up for them. The increase in budget revenues should also make the Ukrainian government independent of subsidies and allow for the self-financing of most public expenditure²⁹.

On the next page is a summary of the main differences in the approach proposed by the Ukrainian side in relation to the conclusions of the final document of the Lugano conference.

²⁹ Ibidem.

Table 1. Differences in the approach proposed by the Ukrainian side in relation to the conclusions of the final document of the Lugano conference.

	Lugano Declaration	National Recovery Council	Recommendations of the Warsaw Enterprise Institute
Coordination	Coordination of the recovery plan by the institution created for this purpose, perhaps the National Recovery Council	Coordination of the reconstruction plan by the National Recovery Council to be accountable for results to the President of Ukraine	Coordination of the reconstruction plan by the National Recovery Council, which in addition to the authority before the President of Ukraine is responsible for the results before the institution created by the entities financing the reconstruction It is important to separate the coordination of reconstruction from the institution that controls the progress and disbursement of funds
Funding	The share of each type of donor in financing reconstruction is not defined	1/3 of internal financing, 1/3 of financing from various institutions, including: the EU, the International Monetary Fund, the European Bank for Reconstruction and Development, the European Investment Bank, allied governments, 1/3 of financing from the private sector	It is most realistic to base the reconstruction on international institutions, while attempting to maximize the involvement of private capital
Financing control	Participation of reconstruction funding institutions in deciding the allocation of funds	Strong independence of the National Recovery Council in management of funds	National Recovery Council identifies needs, disbursement schedule, then the institution appointed by the funding entities allocates funds, sets milestones and divides funding into tranches payable upon meeting specific milestones during the implementation of individual projects
The role of external institutions	Expenditure control, advisory body	Advisory body	Expenditure control, advisory body
Ecology, reduction of fossil fuel usage, energy autonomy	Priority given to reconstruction	Priority 5 years after the end of the war	Priority after 5 years from the end of the war, but taking into account actions aimed at energy autonomy from the beginning of the reconstruction process
Informatization	Informatization of all processes taking place during reconstruction, so that all information on allocated and disbursed funds is publicly available. Universal access to public procurement is essential	Informatization of all processes taking place during reconstruction, so that all information on allocated and disbursed funds is publicly available. Universal access to public procurement is essential	Informatization of all processes taking place during reconstruction, so that all information on allocated and disbursed funds is publicly available. Universal access to public procurement is essential
Transport and Logistics	Rebuilding the transportation system so as to integrate it with EU infrastructure. Reconstruction of railroad tracks in line with European width standard, construction or reconstruction of 5-7 airports	Rebuilding the transportation system to integrate it with EU infrastructure and developing maritime logistics	Integrate infrastructure with the EU, avoiding high-cost investments at the beginning of the reconstruction process (e.g., adjusting the gauge and developing maritime logistics), which do not need to be made to restore the country's pre-war logistics capabilities.

<p>Recon- -struction of housing infrastructure</p>	<p>Rebuilding infrastructure with up-to-date solutions to enable low-carbon or even zero-carbon and efficient energy use</p>	<p>Rebuilding infrastructure with up-to-date solutions to enable low-carbon or even zero-carbon and efficient energy use</p>	<p>Rebuilding infrastructure at the fastest possible pace, taking low-carbon into account in such a way that excessively high environmental standards do not limit the scope and pace of investment. This is intended to limit the time for temporary resettlement of war refugees.</p>
<p>Achieving ma- crostability</p>	<p>Reduce bloated public administration, rationalize public spending, liberalize markets, deregulate and deoligarchize, support the SME sector (loans and subsidies), rebuild financial markets and banking</p>	<p>Extensive privatization and commercialization of enterprises, which, along with deoligarchization, will result in increased efficiency of markets. In addition, support for the SME sector (loans and subsidies), reconstruction of financial markets and banking. Establish a stable, friendly law and justice system for entrepreneurs and investors.</p>	<p>Privatisation and commercialisation at a reasonable pace. Construction of the capital and financial market along with the development of banking. Supporting local SMEs and outside investors through interventionism to reduce investment risk through non-standard insurance instruments and access to low-cost credit. In addition, deoligarchization and the construction of a stable and transparent law, including a tax law with low taxes.</p>
<p>European Integration</p>	<p>All reconstruction activities are to move closer to EU integration</p>	<p>All reconstruction activities are to move closer to EU integration</p>	<p>All reconstruction activities are to move closer to EU integration</p>

Source: own elaboration



In addition to the documents summarizing the Lugano conference, as well as materials prepared by the National Council for Reconstruction of Ukraine, there have been several analyses addressing the topic of rebuilding the country. Some of them coincide with the assumptions prepared by Ukraine and allied countries, but some conclusions and proposals provide alternatives to the plan.

The publication, "Actions for sustainable reconstruction in Ukraine," prepared by iiSBE (International Initiative for a Sustainable Built Environment), indicates that estimating losses may not be simple, and thus the needs may be understated. In addition, the publication indicates that reconstruction may not begin until after the war ends, which stands in contrast to Ukrainian expectations that some of the funding needed for reconstruction would be spent immediately, while the war is still ongoing. It seems that recent decisions granting more new subsidies on an ongoing basis have shown that the Ukrainians are right. **Partial reconstruction and absorption of funds may still take place during the war.** The publication notes that Ukraine is one of the least energy-efficient countries in the world, while being a large gas importer. It is recommended to move towards zero consumption of fossil fuels and promote clean energy and renewable energy sources, through tax changes in this regard, as well as incentives for renovation and more efficient use of existing buildings and to abandon heating spaces whose size makes them energy inefficient³⁰. **The Ukrainian plan implies that energy neutrality is not feasible in the short term, so it will not be the first priority of reconstruction, and will only be among the main goals of modernizing the economy five years after it begins**³¹. Other suggestions made in the publication include auditing and optimizing the city's energy grids, as well as

establishing that the construction of new facilities and the renovation of war-damaged ones is to be carried out only in such a way that the new ones or those undergoing renovation are zero- or near-zero-carbon. In addition, a proposal proposed by the Wroclaw University of Technology, where students as part of their education could design houses for Ukrainian families, with the vision of "one student, one house," was noticed. Other technical universities could also be involved in these activities³².

Another important publication is the analysis made by CERP (Centre for Economic Policy Research) 'A blueprint for the reconstruction of Ukraine'. The publication does an excellent job of summarizing the current situation in Ukraine (as of the time of writing), as well as accurately identifying the starting point of the Ukrainian economy before reconstruction begins. Potential institutions that are ready to finance Ukrainian reconstruction have also been identified. **The study proposed that support for Ukraine should not be unconditional, but that funds should be released according to a schedule once milestones set in the reconstruction plan are achieved. Milestones must be identifiable and quantifiable.** Ukraine is indisputably not to blame for the ongoing war, so CERP proposes that the vast majority of support should be non-refundable subsidies rather than loans. **This would be based on the Marshall Plan after World War II, where 90% of the funds were non-refundable.** This would reduce the risk of a future Ukrainian insolvency, as well as reduce the possibility of stifling development from strangling the economy with the high cost of debt service³³. This seems like a reasonable proposal, and would further support long-term development by being a pro-investment proposition, by significantly lowering the cost of capital for Ukraine. Reconstruction should take place in a holistic, coordinated manner. The

³⁰ iiSBE, *Actions for sustainable reconstruction in Ukraine*, The International Initiative for a Sustainable Built Environment and several individual experts.

³¹ National Recovery Council, *Ukraine's National Recovery Plan*, Ukraine 2022.

³² iiSBE, *Actions for sustainable...* op. cit.

³³ CEPR, *A blueprint for the reconstruction of Ukraine*.

progress of reconstruction should be overseen by a single institution that would centralize the organizations providing support, but it should be dissolved after Ukraine's entry into the EU so as not to create excessive bureaucracy. A platform is mentioned that would connect all stakeholders with the government or the Ukrainian institution coordinating the spending on reconstruction. It is noted that it is the Ukrainian administration that should define mainly the objectives of reconstruction, because they know their needs best. Assistance to Ukraine should be designed in such a way as to be conditional and the conditions should bring Ukraine up to European standards, also in the field of anti-corruption, in order to allow full integration with the EU. **The publication stresses that Ukraine must remain a market economy, however, state interventionism will be necessary during and temporarily after the war.**

The document stresses the importance of decentralisation. The government from the central level is unable to distribute funds effectively, so projects for subsidies should be created at the local government level. This is especially true for infrastructure projects, such as the reconstruction of roads, schools, hospitals, etc. The government's role would be to provide opinions on the projects and forward them to an external institution, which would decide whether to allocate funds or give substantive comments on the project. A major challenge will be fiscal policy (falling budget revenues) and monetary policy (runaway inflation). The government will have to secure funds for the current operation of the state, but also for securing a credit line for businesses, with the cooperation of allied countries. Some of the loans taken out on the Ukrainian financial market before or after the war began can be written off, but this must be done in such a way that it would not devastate

Ukraine must remain market economy, however state interventionism will be necessary during the war and some time after its end.

the banking sector. A part of the aid should go to banks, which need to undergo a recapitalization process in order to have a solid share in financing the recovery of the economy. **In the long term, the share of international banks should be increased in the banking system by privatizing some of the state-owned banks, which will increase accessibility to international financial markets.**

It is recognized that the lack of housing infrastructure may be the biggest constraint acting as a barrier to refugee return, so this should be one of the priorities in the medium term. It was noted that securing the supply of energy resources should not be a major challenge, as Ukraine is already connected by energy systems to EU countries. However, it should be remembered that care must be taken to increase their capacity to ensure the country's future development.

According to the CEPR Report, in the long term Ukraine should struggle to attract as much foreign investment as possible, which will also allow transfer of technology. A similar narrative can be seen in other publications, which emphasize the role of European integration and the need for reform – especially a break with the communist legacy and simplification of the law, which will result in a better marketization of the economy. In the context of energy, it is repeated that the Ukrainian economy needs to consume less fossil fuels and integrate the energy market with the EU's³⁴.

European Bank for Reconstruction and Development announced financial support in the form of low-interest or non-interest-bearing loans, if the projects are consistent with the policy of low-carbon and environmentally friendly. This is an aid that will finance a lot of investment, as well as roll over some of the

³⁴ CEPR, *A blueprint for the reconstruction of Ukraine*.



short-term debt, giving a breathing space to the Ukrainian authorities³⁵. The funds from this source would mainly finance fossil fuel reduction projects, energy efficiency projects, distributed, private, small- and medium-scale renewable energy projects, as well as the renovation of now obsolete nuclear power plants.

The largest Dutch organization for peace, PAX, which has experience in post-war reconstruction from sub-Saharan Africa, the Middle East, the Balkans and Colombia, stresses that reconstruction has the best results if it is planned and led by local authorities, with the

participation of the local community, and if it is citizen-oriented, for human capital will be the most important pro-development factor once reconstruction is complete. Democratization, strengthening civil society, and support in dealing with war trauma are key to the reconstruction process. It is noted that the planning process should include the maximum possible number of Ukrainian experts who live in Ukraine and know its realities, and should minimize decision-making, the responsibility for designing the plan to the institutions that will finance the reconstruction. **According to PAX, this carries the risk of undermining the powers of local**

³⁵ CEE, Bankwatch network, *The EBRD's response to the war in Ukraine*, 2022.

authorities, slowing down democratisation and encouraging corruption. This stands in contrast to most publications to date, which emphasize the need for considerable scrutiny and participation of foreign experts in the reconstruction process, primarily due to Ukraine’s past corruption problems³⁶.

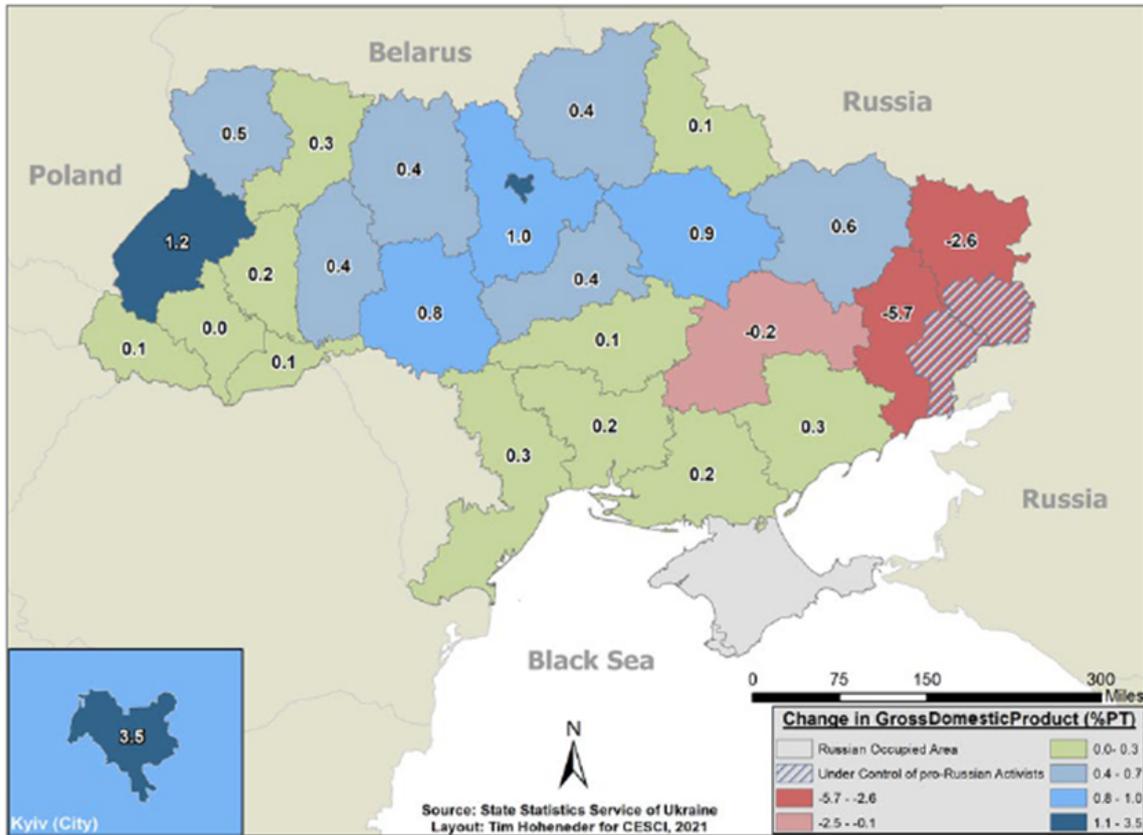
PAX emphasizes the importance of the decentralization initiated in Ukraine in 2014, particularly that the disposition of international aid may create tendencies toward a new wave of centralization. Building partnerships between Ukrainian cities and Western European cities can play an important role in building human capital. As in other publications, it is stressed that it is extremely important to put in place

a functioning anti-corruption policy and judicial reform, as well as to maintain a professional, impartial media that will ensure that support funds are reliably spent.

PONARS Eurasia, recognizes an important aspect not addressed in other studies. It points out, Ukraine has developed unevenly in recent years, and development disparities between regions may negatively affect the implementation of Ukrainian reconstruction goals. Below is a graphic showing GDP growth in 2013–2019 in individual regions. Not surprisingly, the decline in GDP in the Donetsk and Lugansk regions is significant, but the remaining disparities between the regions are quite significant³⁷.

³⁶ PAX Policy Brief, *Guiding principles for comprehensive citizens based reconstruction in Ukraine, 2022.*
³⁷ PONARS Eurasia, *Rebuilding Ukraine: Pre-War Trends and Post-War Priorities Should Inform the Process, 2022.*

Figure 2. Accumulated GDP change in Ukraine in 2013–2019



Source: PONARS Eurasia, *Rebuilding Ukraine: Pre-War Trends and Post-War Priorities Should Inform the Process, 2022.*



5. Coordination of the processes of acquisition, allocation and control of disbursed funds during the reconstruction of Ukraine

- Transparency in spending and a well-functioning anti-corruption policy will be both the biggest challenge and a necessary condition for optimal financial support.
- Stakeholders should aim to create a single organization with broad international trust to allocate funding, review projects and control how funds are spent.
- Breaking up monopolies, fighting oligarchization, and increasing competition in Ukraine's domestic market will be among the key aspects of economic policy design.
- Despite a number of legislative solutions and the emergence of more effective instruments to combat corruption after Euromaidan, the problem of corruption remains. It will be necessary to appoint international observers for the implementation of procurement from the reconstruction fund.

5.1. Anti-corruption mechanisms in Ukraine introduced after Euromaidan

According to the Transparency International ranking³⁸, Ukraine was 122nd in the world in terms of financial transparency and corruption in 2021. Since Euromaidan in 2013, there have been very positive but slow changes regarding the improvement of the functioning of the state in the context of corruption. However, the above changes are not sufficient despite the launch of Prozorro and Dozzoro systems in 2015.

The Pozzoro system³⁹ serves transparency in public spending by posting information on current public procurements up to UAH 50,000 in a publicly accessible online platform. The platform allows bids to be submitted, and once the procedure is completed, all information along with documents are made available for inspection. It is estimated that it has reduced

³⁸ <https://cpi.ti-ukraine.org/en>, accessed on 20.08.2022 r.

³⁹ K. Potapenko, *Przeciwdziałanie korupcji w zamówieniach publicznych i nowy system e-zamówień „ProZorro” na Ukrainie*, „Zeszyty Naukowe Towarzystwa Doktorantów UJ”, Cracow 2017 r.



the incidence of corruption in Ukraine between 10% and 25%⁴⁰.

The second platform is Dozzoro. It allows businesses whose rights may have been violated in the procurement process to receive structured feedback on the tender, buyer, or other bidder. If there is no reply, the case may be redirected to one of the experts to investigate the circumstances. If, after analysis, an infringement is found, an appeal shall be lodged with the control authorities⁴¹. The complainant also has the chance to rate the quality of the response from 1 to 5, and offers in which there was no response to the complaint or whose satisfaction level was below 3 are marked as risky and highlighted on the platform. Both systems create a transparent public procurement system.

In January 2015, the first open competition for the position of the director of the National Anti-Corruption Office of Ukraine took place, for which 186 candidates applied⁴². Thus sealing the establishment by law of the National Anti-Corruption Bureau of Ukraine (NABU) in 2014, a new body to combat corruption. It is intended to be institutionally independent in its investigations. In addition, a special civilian oversight has been put in place over the Anti-Corruption Bureau, which is comprised of competent community activists elected by an annual online vote. In 2015, the Special Anti-Corruption Pro-

secutor's Office (SAP) was also established to be an independent structural unit that would refer indictments to the courts. There were also violations of the law in this body.

Another authority in charge of prevention in the fight against corruption was established in 2014. The National Agency for the Prevention of Corruption (NAZK) was established, with its main activities being mediation, working with whistleblowers, and introducing anti-corruption strategies and campaigns. Currently, it employs about people⁴³.

Under the influence of the International Monetary Fund, the United States, and the European Commission, the Supreme Anti-Corruption Court was established in 2018⁴⁴. It was created mainly through pressure from Western countries and international organizations on Ukraine, but it is difficult to assume that such an institution would have been created without international leverage.

Despite all these efforts, it has still not been possible to create a fully effective system to combat corruption, especially in the largest-scale public investments. Since Volodymyr Zelensky took office in 2019 until the outbreak of the war, not much has changed either. The Constitutional Court of Ukraine and the parliament were used to paralyze the activities of all

⁴⁰ <https://www.ogpstories.org/through-the-power-of-the-people-empowering-citizen-watchdogs>.

⁴¹ <https://oecd-opsi.org/innovations/dozorro>.

⁴² <https://nabu.gov.ua/en/history-nabu>.

⁴³ <https://nazk.gov.ua/uk>.

⁴⁴ <https://www.forbes.pl/wiadomosci/sad-antykorupcyjny-na-ukrainie-parlament-uchwalil-przepisy/lgm9sj7>.

anti-corruption bodies. **A significant number of deputies and other public officials act on behalf of the oligarchs who finance them, or more precisely, corrupt them. This causes a certain spiral of corruption that is difficult to break, aimed at sustaining the influence of the oligarchs.** With demands from the International Monetary Fund and other institutions, including the European Union, which can exert leverage through, among other things, pressure from the possibility of withdrawing aid tranches, attempts are still being made to curb corruption. One hopes that with the world's attention turned to Ukraine, this may change. Above all, an important change is the revision of values through an absolute zero-tolerance policy for corruption in society. It is important to remember that Ukrainian corruption is not only profiteering from foul tenders and other business at the intersection of the state and the private sector, but also small-scale corruption on a large scale in offices, the police or when applying for jobs. In 2020, as much as 58% of Ukrainians had a negative view of the fight against corruption, and 24% of respondents indicated that they had been asked for a bribe at least once during the year⁴⁵.

5.2. Anti-corruption system and reconstruction of Ukraine

Currently, there are three very strict anti-corruption regimes in the world, one of which is the U.S. Foreign Corrupt Practices Act, which dates back to 1977, the UK's Bribery Act of 2010, and France's SAPIN II in 2016. All of them have in common the definition of responsibility for corruption not only of the employee, but also of company boards. In anti-corruption proceedings, companies must demonstrate that their decision-making bodies have made every

possible effort to combat intra-organizational corruption. In addition, as at least in the case of the U.S. FCPA, if the act of offering or giving a financial benefit took place in a country other than the United States, and it had a connection to that country, one is liable under U.S. law⁴⁶. This minimizes the risk of bribing an official in another country by an entity with ties to the United States. In this case, US companies must also operate under the applicable law in the country in which they do business. With the United States and the European Union funding the reconstruction of Ukraine, there is likely to be pressure to use one of these three systems.

The potential reconstruction of Ukraine will result in an incredible increase in the number and value of public procurement contracts. In

Despite efforts, since Euromaidan to date, the succeeded in creating a well-functioning anti-corruption mechanism.

order for the money to be spent optimally, and for healthy competition to be generated between entities, an efficient anti-corruption system must

be in place. Despite efforts, since Euromaidan, Ukrainians have so far failed to establish a well-functioning anti-corruption mechanism. Business entities interested in participating in Ukraine's reconstruction may encounter a number of ties, as well as blocking of their operations due to the significant oligarchization of the economy. In such conditions, it is difficult to talk about fair competition in public procurement.

- In my opinion, the States whose companies are to be involved in the reconstruction should have their NGO or association in Ukraine. The task of such an organization would not only be to provide real business support, but also to carry out all possible activities to search for corrupt phenomena that have a real impact on a given tender in which a Polish entity was competing. Thanks to this, there would be even a small possibility of controlling public

⁴⁵ https://www.pism.pl/publikacje/Niekonczaca_sie_opowiesc__walka_z_korupcja_na_Ukrainie.

⁴⁶ <https://www.justice.gov/criminal-fraud/foreign-corrupt-practices-act>.

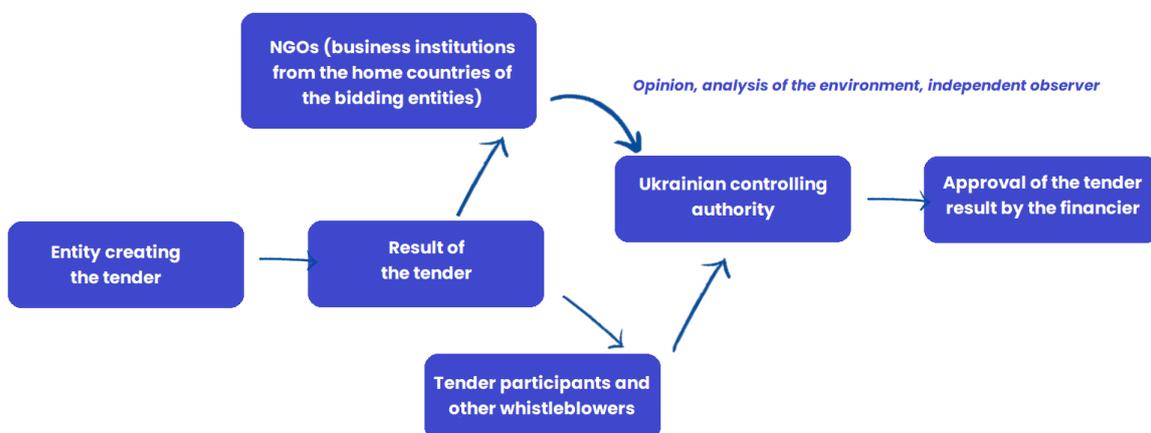


procurement, as well as signaling illegal occurrences – said Sławomir Śnieżko, President of the Management Board of the Anti-Corruption Academy, in an interview with Warsaw Enterprise Institute, who previously held high positions in the Police Headquarters, as well as the Central Anti-Corruption Bureau⁴⁷.

In addition to an international institution centralizing the processes of granting subsidies and verifying the disbursement of funds, each of the countries participating in the reconstruction of Ukraine could have its own control and business organization, operating according to the following scheme:

⁴⁷ The interview was conducted on August 30, 2022.

Figure 3. Control mechanism suggestion



Source: own work

Countries participating in the reconstruction could rely not only on Ukraine's anti-corruption institutions, an international organization created to control the spending of funds, but also on NGOs from the home country. This would allow them to promote their companies so that they are not left out of the bidding process, oversee the legality of the tenders, and support companies in operating in Ukraine. Such a solution would help further secure financing for a major and large-scale national reconstruction project.

Previous experience in cooperation of Ukraine with such organizations, such as The International Monetary Fund shows that if financial tranches are at stake, then the Ukrainians can and are able to introduce extensive measures to obtain them. As an example, it is worth mentioning the creation of the Supreme Anti-Corruption Court under pressure from the IMF in 2018. The dependence of funds for the reconstruction of Ukraine on the transparency of public procurement and spending funds in cooperation with national business and control organizations seems an interesting and realistic idea. NGOs would then perform a control and advisory function in cooperation with the Ukrainian authorities.

The above solution is not entirely consistent with the proposed solutions in the first visions of reconstruction implementation. According to them, a single organisation would be established, centralizing the allocation and control of the funding allocated to Ukraine. If such an organisation were to gain the trust of all donor and reconstruction countries and organisations, such a scenario would be realistic. Unfortunately, given past experience, it is difficult to imagine a solution proposed by Ukraine, as well as some NGOs, where Ukraine, under the leadership of the president and a body mandated by him, would be the one to control the spending of funds, including full anti-corruption control.

Sławomir Śniezko points out that it will be important to bring the anti-corruption authorities, which often act in conflict with each other, into agreement. *There has been a perennial problem in Ukraine that cooperation between departments has not always gone well. The problem is mainly human and political. Not everyone wanted to head in the same direction. That was before the war. The war has changed this to some extent*, he explained. While there is a significant unifying factor between feuding interest groups when fighting a common enemy, it is not certain that these communities will remain undivided after the war ends. This is where the proposed solution of cooperation of the Ukrainian authorities with national control organizations or a single control organization with international trust, which will oversee the process of spending and possible dependence on the effects of anti-corruption policies, as well as the efficiency of implementing the next stages of reconstruction, comes from – it can be a bonding factor.

One of the key conditions for assisting Ukraine in its reconstruction is not only to solve the problem of corruption, but also to effectively control and optimize public spending, deoligarchize the economy and thus increase competition, as well as provide security for the allocation of capital by foreign investors. **Despite the fact that more than three months have passed since the Lugano conference, so far no detailed plan has been presented on how all the processes are to be carried out.** Volodymyr Zelenski, who currently has many more opportunities to act without the approval of the Ukrainian parliament or by ruling by decrees, is also trying to take advantage of the state of war, while enjoying massive public support due to the Ukrainian army's actions on the front lines. The chance of a similar way of governing the state may not happen again.

5.3. Deoligarchisation of the economy

It is well known that Ukraine's current president owes much of his election to his ties to oligarch Igor Kolomoisky, who is even portrayed as the architect of Volodymyr Zelensky's political career. The President of Ukraine was not the first to use the services of a multibillionaire. A similar situation occurred in the case of Yulia Tymoshenko after the Orange Revolution, and later Viktor Yushchenko⁴⁸. Ihor Kolomoyski is famous for financing Ukrainian politicians, even if they are in separate groups, completely unrelated ideologically. He also had the opportunity to do so, because he owns the 1+1 TV station, the star of which was the current president Volodymyr Zelenski. The oligarchs of the 1990s became an integral part of the functioning of Ukraine's economy and political system through party financing. It is difficult to talk about the social transformations that can take place in a short period of time if such a climate of business and political connections has been in place for 30 years.

Nonetheless, there have been efforts to minimize the influence of oligarchs in Ukraine since Zelensky became president. An example is the act of September 2021, which was intended to create a registry of oligarchs, as well as establish a ban on their funding of political parties⁴⁹. To be on this list, one must meet at least one of four conditions: have political influence, have influence over the media, be a monopolist in its industry, or have assets that exceed the social minimum by a million times.

In the context of raising funds for reconstruction, an important factor being considered by the

Western world will be the successes in deoligarchization led by Volodymyr Zelensky. Ihor Kolomoisky, who portrays himself as the mastermind behind the current Ukrainian president's political success, was until 2016 the owner of Privatbank, which was nationalized by the previous government in the wake of some \$5.5 billion in financial frauds⁵⁰. **The oligarch wanted to take advantage of Zelensky's presidency and reclaim the bank that belonged to him. Influenced by the International Monetary Fund and conditioning the payment of an aid tranche to Ukraine at the end of 2019, the current Ukrainian president refused Kolomoisky and Privatbank**

Since Zelensky assumed the presidency, there have been ongoing activities have been taking place aimed at to minimize the influence of oligarchs in Ukraine.

was left in the hands of the state treasury, which started an open conflict between the two sides. Among other things, in the wake of these events, it was reported to the

media world in July 2022 that Igor Kolomoisky, along with other oligarchs (Hennadiy Korban and Vadym Rabinovych), may be stripped of Ukrainian citizenship and their fortunes are to be confiscated. The open conflict with the oligarchs has been going on since mid-2020: As business sharks, you must have nerves of steel. I'm surprised you don't feel that the country has changed and is starting a new chapter in history. According to the new rules. Not even that, just – according to the rules. You can accept them: be a big, transparent business with the support of the state or you will be out of the game – such a clear declaration was made last year by Volodymyr Zelensky⁵¹.

Despite the open fight against the oligarchs, there are still systemic problems in this regard. Many state positions are filled by people who began their careers back in the Soviet Union, and some industries, such as forestry and ener-

⁴⁸ <https://forsal.pl/artykuly/1409279,ukraina-rzadzona-z-tylnego-siedzenia-kim-jest-bogacz-ktory-stoi-za-zelenskim.html>.

⁴⁹ <https://forsal.pl/swiat/ukraina/artykuly/8253492,ukraina-ustawa-o-oligarchach-co-oznacza-nowe-prawo.html>.

⁵⁰ <https://warsawinstitute.org/pl/problem-zelenskiego-z-kolomojskim>.

⁵¹ <https://www.money.pl/gospodarka/zelenski-odcina-macki-biznesowej-osmiornicy-ale-wyrastaja-jej-nowe-6794714950638464a.html>.

gy, still face significant corruption⁵². "The great purge" of political and business ties initiated by Volodymyr Zelensky after the February 24, 2022 Russian invasion is still ongoing and can function mainly due to the ability to govern through decrees. Ukrainian MPs such as Oleksiy Kovalev and Viktor Medvedchuk, along with his wife Oksana Marchenko, have also joined the roster of those detained for corruption. An increasingly aware society, which is beginning to resist corruption, plays a very important role. The executive director of the Anti-Corruption Action Centre, Daria Kaleniuk, who stated in an interview with the Warsaw Enterprise Institute, agrees: *After Euromaidan, a number of anti-corruption solutions were introduced, public awareness increased, which is why they are losing their importance. [...] One of the reasons is the reduction in the impact on society in recent times. The oligarchs' TVs are losing their audiences.*

The increasing lack of public approval for the activities of the oligarchs, along with the legal options currently available to the Ukrainian president, provide perhaps the only chance to resolve the oligarchization of the state, which will have a positive impact on the economy in the future. The reconstruction is to be based mainly on small and medium-sized enterprises, which is the natural opposite of an oligarchized economy, this is to result in greater competitiveness and somehow replicate Poland's economic success after 1989. Failure to resolve the issue before the end of the war with Russia could result in a reduction in reconstruction funding from international institutions and, above all, a decline in private sector interest in entering the Ukrainian market. The above institutions will not be interested in participating in a market that functions based on the influence of the oligarchs.

5.4. Control of disbursement during the recovery plan

It has been widely reported in the Ukrainian media that SOEs are being harmed by their managers, who are deliberately lowering the financial performance of companies and causing them to incur losses through deliberate mismanagement⁵³. According to the reports of the Ukrainian portal "Economic Truth", these activities are aimed at taking them over in the future for a fraction of their value during the great privatization plan and creating a new class of oligarchs along with their spheres of influence. If this occurs on a large scale, it is possible that funds for reconstruction will be cut, as this will repeat the 1990s pattern that has been destroying the Ukrainian economy for more than 30 years. **Even despite Volodymyr Zelensky's willingness to fight the deals and his clear declaration to that effect, the eyes of the world and all of Ukraine will be on the privatization process. The President of Ukraine is in favour of the liberalisation of the economy, and therefore also the privatisation and commercialisation of the state-owned industry. Admittedly, the privatization process itself can cause more corruption, but done properly, it should lead to better allocation of resources, better efficiency in Ukraine's giants, and improvements in Ukraine's captive markets for goods and services.**

There is no current decision on how Ukraine, together with its foreign partners, will control the cash flow for its reconstruction. Ukrainian politicians would like to have maximum influence over the disposition and control of funds. They want to do this on the basis of the mechanisms developed after Euromaidan in 2014, and in particular the reforms of 2017 and 2018. According to many, they are sufficient to ensure

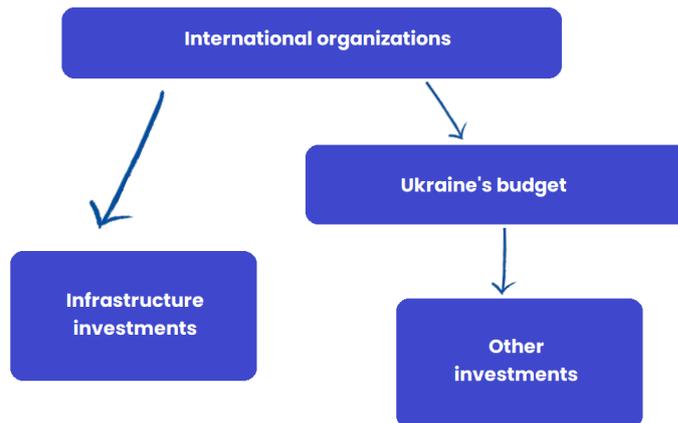
⁵² Ibidem.

⁵³ <https://www.money.pl/gospodarka/nowi-oligarchowie-zarabiaja-na-wojnie-w-ukrainie-rosna-fortuny-6776898769091136a.html>.

transparency of public finances and proper allocation of funding. It is possible that infrastructure investments were carried out without

direct transfer of money to the accounts of the Ukrainian administration. This would be done according to the following scheme:

Figure 4. Allocation plan for the reconstruction of Ukraine



Source: author's own development

In principle, infrastructure projects are among the most corrupt, and involve the transfer of huge amounts of money. **A good solution would be to appoint foreign arbitrators for public contracts spent on reconstruction.** The appointed arbitrators would act as an independent opinion-forming body in this regard, indicating the recommendation for a given project. This body could include international organizations or embassy-designated government agencies (e.g. Polish Investment and Trade Agency), which would cooperate with each other.

An alternative could be to establish an institution that has a credential to centralize funds from reconstruction financiers and distribute them to specific projects submitted by Ukraine's central government, municipal authorities or Ukraine's institution responsible for coordinating reconstruction. The established institution would consolidate the various streams of public funding, allocate them, defining milestones and distribution into tranches, and monitor the progress of their disbursement on an ongoing basis.

In doing so, it must be able to make decisions and take over the responsibilities of awarding subsidies and grants to all the organisations concerned, in order to channel resources more harmoniously and sustainably and to monitor progress in spending them on an ongoing basis. The authority of this institution would include representatives referred by parties interested in financing reconstruction, particularly public institutions involved in the process, and participation in such a system would, of course, be voluntary. The benefits of such a system are the reduction of bureaucracy, as procedures for obtaining public funds would be standardized, there would not have to be many control institutions verifying progress, and there would not have to be many anti-corruption bodies at the international level. Such an institution, through extensive cooperation with stakeholders and the coordinating body for reconstruction, could accelerate the reconstruction process.

Of course, this would not exclude the possibility of initiatives directly implemented by the private

sector or institutions that will not participate in the creation of such an institution. However, if the major international organizations with public funds were to finance projects separately, on their own, this support could proceed in an uncoordinated manner. Transferring all of the funds directly to the Ukrainian authorities or the reconstruction coordinating institution, which would have to manage the funds themselves, could be problematic due to the difficulty of control and the risk of corruption.

5.5. Security guarantees for foreign private investors

Despite the introduction in Ukraine of one of the most transparent systems for the implementation of public procurement in the form of Pozzor and Dozzor, before the war there were still abuses in this regard. However, there were significantly fewer of them than in the past. An important role was also played by the possibility of dealing with an increasing number of issues over the Internet, thanks to which the official is separated from the client, significantly reducing the risk of corruption. In addition, the transparency of the system, by making incoming bids public, increased security and operation in accordance with the law. Nonetheless, foreign investors with private capital will recognize the risks associated with the Ukrainian market, as Ukraine is portrayed in the broad European consciousness as a country deeply paralyzed by corruption.

Daria Kaleniuk, Executive Director of the Anti-Corruption Action Centre based in Kiev, is of the opposite opinion: *Businessmen can work with local agencies to report corruption and unfair practices. There is also a developed civic movement cooperating with investigative journalists. Cases are publicized and resolved. Entrepreneurs should not worry about potential corruption cases. Likewise in the case of public procurement. Pozzoro and Dozzoro have changed a lot in the fight against corruption and ensured a lot of transparency as well as fairness of proceedings. Transparency is paramount, and that's what we want to attract capital with.*

According to Kaleniuk,⁵⁴ many licenses can be obtained online, which reduces the risk of confrontation with an official who may act to the detriment of a given entrepreneur. Of course, it can have a positive impact, although it is not the most important motivating factor for investment and is not a guarantee of stability. Instead, Ukrainians see great value in the NGOs and public administration structures established after 2017, as those of greatest importance in Ukraine's future reconstruction. So far, however, they have been under great pressure from oligarchs, as well as individual politicians. During the purge led by Volodymyr Zelensky, will these influence groups be marginalized, and won't new ones rise in their place?

⁵⁴

In an interview for the Warsaw Enterprise Institute on 13 September 2022.





6. The potential role of private foreign capital in Ukraine's reconstruction, as well as practical tips from experts, entrepreneurs and government officials

- Polish and foreign companies may not be "automatically" interested in entering the Ukrainian market due to low household purchasing power and high political risk. International companies operating on the Ukrainian market are likely to continue to operate on it.
- Attracting a significant number of Polish companies as part of a reconstruction project and expansion into the Ukrainian market can take place once the energy crisis is resolved and the situation in Ukraine stabilizes.
- Regardless of the circumstances, Polish large construction companies will be interested in participating in the reconstruction. Opportunities for a major new market are also seen by RES companies.
- Investment funds treat potential investments with caution. An opportunity to attract capital will be the large-scale privatization of state-owned enterprises.

6.1. Internal factors that may foster business development and cooperation with Ukraine

Comparing the current situation to the annexation of Crimea and the 2014 war in Donbass, a significant difference is the strong political leadership of Volodymyr Zelensky, in the wave of which the active involvement of local society in the reconstruction of Ukraine is possible, as well as the much greater willingness of the international community to commit capital and know-how.

According to an expert from the Polish-American Freedom Foundation with experience in political transition, an important factor will be the creation of an efficient anti-monopoly authority to combat the ruling oligarchy. In turn, the current strong political leadership in the form of Ukraine's president may have a decisive role in ensuring that the mistakes made after the 2013 Maydan

are not repeated. The guarantee of inviolability of borders in a politically stable state will have an extremely important impact in the reconstruction of Ukraine and its economic growth.

In addition to political leadership and border stability, demographics will play a very large role in reconstruction. According to data from the United Nations, currently outside Ukraine, there are about 7 million refugees⁵⁵. Nearly 390,000 people have taken jobs in Poland, out of an estimated 1-1.5 million people who arrived after February 24, 2022⁵⁶. **This creates a major demographic problem for Ukraine, as many young Ukrainians may no longer return permanently to their home country.** In order to encourage return, there must be an attractive system or a quick opportunity to change one's material status, which will be extremely difficult in the post-war reality. A large number of the refugees have nothing to return to, as their villages or their properties have been completely destroyed. Until an extensive reconstruction program begins, it will be difficult to offer them living conditions that encourage them to return.

6.2. Potential participation of investment funds in the reconstruction of Ukraine

For nearly three years, Ukraine has been trying to create an environment friendly to the development of the IT industry. There is even a special economic zone for such entities called Diia.City, which has very favorable legal and tax solutions and encourages foreign entities to register their company in Ukraine. Currently, the project and the zone are already operating about 300 entities. Openness to new technologies and Ukraine's willingness to develop in this respect can be evidenced by the words of the Minister of Digital Transformation⁵⁷ – *Cryptocurrencies enable faster transactions, they are*

a more flexible and cheaper tool than bank transfers. It's easier, uncomplicated, transparent and instant compared to a bank SWIFT transaction, which can take more than a day to complete. In the world of cryptocurrencies, the transfer of funds takes only a few minutes – Oleksandr Borniak about cryptocurrencies.

Moreover, since the beginning of the war, many of the funds obtained to support the Ukrainian army have been transferred using cryptocurrencies. The phenomenon of companies moving to Ukraine from at least Belarus was also already evident even before the war. **Despite the war, the Ukrainian IT sector recorded an increase in service exports by 23 percent in the first half of 2022 compared to the same period in 2021⁵⁸. Even at the height of the Russian onslaught in early March 2022, Ukraine's IT sector maintained 96 percent of its service exports, an unprecedented phenomenon.**

The Ministry of Digital Transformation's main goal is to make Ukraine the fifth country in Europe with the largest number of start-ups. Work is also underway to introduce e-residency for IT professionals from around the world, allowing them to settle under favorable tax laws without having to live in Ukraine. There are also plans to establish an international investment fund to attract foreign capital to develop the technology industry. Ukraine has ambitions to become the most attractive country for the world's leading investors and technology giants. In addition, also by creating a global platform of ideas that will provide conditions for launching the most ambitious international projects from Ukraine with comprehensive support from the state and venture capital.

Despite the very ambitious plans, it is essential to create a stable environment for doing business in Ukraine, and here there is still an unresolved

⁵⁵ <https://300gospodarka.pl/news/uchodzcy-z-ukrainy-w-polsce-liczba>.

⁵⁶ <https://www.pit.pl/aktualnosci/kiedy-uchodzca-z-ukrainy-musi-zaczac-placic-podatki-w-polsce-1007365>.

⁵⁷ <https://www.gazetaprawna.pl/wiadomosci/swiat/artykuly/8515393,wojna-w-ukrainie-zbieranie-srodkow-na-armie-kryptowaluty.html>.

⁵⁸ <https://fortune.com/2022/08/24/ukraine-going-all-in-tech-rebuild-economy-international-oleksandr-bornyakov>.

problem of Russian invasion, as well as territorial integrity. Demography can also be a big problem. Although men aged 18–60 have been banned from leaving Ukraine since 24 February 2022, there is a high probability that they will join their families after the end of the war for economic reasons. Apart from the occupied Crimea and the regions of the Donetsk and Lugansk regions uncontrolled in 2021, Ukraine had 37.3 million inhabitants, which means a loss of even about 16% of the population in only half a year, and this number may increase significantly. Therefore, foreign investment funds or other organized forms of private capital investment may have doubts about the legitimacy of investing their capital in Ukraine.

Reconstruction of the country after the war under current conditions is also taking place in a different way than it did after World War II. There are also completely different geopolitical factors. This is pointed out in an interview with the Warsaw Enterprise Institute by Piotr Koryś, Ph.D., an economic historian and economist at the Faculty of Economic Sciences at Warsaw University: *It took the Asian countries 20–30 years to get to the economic miracle, so it is hard to expect this in such a short time in Ukraine. I would*

point out that this took place over 20 years of relative geopolitical calm, with very favourable demographic conditions. At that time, there was also a long-term inflow of US capital. E.g. The Americans bought Japanese products during the Korean War. There were also no conditions for emigration. Now it is very important. Ukrainians will be able to migrate freely.

In addition, a significant problem has emerged in Europe since the second quarter of 2022 related to energy resources and high electricity and gas prices, as a result of sanctions imposed on Russia by the European Union and the United States. This may limit the number of entities willing to invest in Ukraine and force them to focus on their current operations. *Poor demography, low number of willing countries to transfer funds. [...] European Union countries have their own problems, and there is, after all, a hostile Russia [...]. Ukraine's role in the international arena has also not been defined so far,* said Piotr Koryś.

In the context of investment funds, their lack of a clear voice in the public space is noticeable. It is difficult to obtain any media information or statement describing in more detail their plans

Reconstruction of the country after the war under current conditions is also taking place in a different way than it did after World War II.



related to post-war Ukraine. In addition to Howard Buffet's interview⁵⁹, in which he informed about the transfer of USD 2.7 million to help Ukraine after his conversation with Volodymyr Zelensky, the people responsible for the funds do not provide public information.

For the purposes of this report, we were able to reach one of the investment analysts at the fund who covers Eastern markets. *In order to talk about real investment fund interest in the post-war Ukrainian market, Russia must suffer a significant defeat on the front lines. Arguably, more stability would be provided if a second front opened in some distant country. [...] In my opinion, there are three key segments: real estate, industry and mining. Ukraine will need funds for reconstruction, a major privatization is coming up. I don't think that the prices of companies are at the level of their real value, just cheaper - he said in an interview.*

Given the significant economic problems in the past, as well as the very uncertain future, it may be reasonable to conclude that placing funds in Ukraine after the war may resemble more a speculation (on which a potentially high rate of return can be earned) than an investment. The hope may be privatizations that attract long-term investors who will be open to doing real business in Ukraine. **At the beginning of August 2022, a great privatization was announced in Ukraine, which is to cover 420 enterprises⁶⁰. It will also be the first country in recent history to carry out mass privatization during a war. The Ukrainian government plans**

Given the significant economic problems in the past, as well as the very uncertain future, placing funds in Ukraine after the war may resemble more of a speculation than an investment.

to leave no more than 100 enterprises in the hands of the state.

However, taking into account the ambitious plans published in "Ukraine's National Recovery Plan" by the National Recovery Council, it may be unrealistic to raise a minimum of \$250 billion in private funds over 10 years, which would account for 1/3 of all absorbed funds during reconstruction. Amounts for private investment are the most difficult to estimate, because they depend primarily on the conditions of peace and the potential situation of the Ukrainian economy a few years after the war.

6.3. Polish entrepreneurs in the sme sector interested in investing or entering the Ukrainian market

The most significant factor affecting the role of Poland's small and medium-sized enterprise (SME) sector in Ukraine's recovery will be Poland's domestic economic situation. **Currently⁶¹ companies are focused on survival rather than investing in another country or looking for an outlet for their goods. According to the Purchasing Managers Index (PMI) - the indicator responsible for measuring sentiment among managers in the context of: economic activity, production, or orders - Poland currently has the worst score in the world when it comes to industry⁶².** In addition, Poland has also entered a state of economic recession and currently has the fastest rate of decline of all European Union countries in terms

⁵⁹ <https://www.cnbc.com/2022/06/13/buffetts-son-donates-2point7-million-to-ukraine-after-zelensky-meeting.html>.

⁶⁰ <https://www.rp.pl/gospodarka/art36815941-ukraina-roz poczyna-wielka-prywatyzacje-na-liscie-420-przedsiębiorstw>.

⁶¹ As of 05.09.2022.

⁶² <https://businessinsider.com.pl/gospodarka/zly-odczyt-pmi-dla-polski-nasz-przemysl-w-najwiekszej-depresji-na-swiecie/yj4k9mk>.

of Gross Domestic Product growth⁶³. Of course, there is a reason for the situation in Ukraine and the energy crisis associated with it. Perhaps ending the war will cause some enthusiasm in the markets, which may make the Ukrainian market interesting for Polish entities.

Unfortunately, macroeconomic data now show negative trends. Under such conditions, it is becoming increasingly difficult for SME companies to cope with the local market. They are already making difficult strategic decisions, reducing production or, in extreme cases, cutting jobs. One example is Cerrad, one of Europe's largest ceramic tile manufacturers, which has been forced to halt some of its production and about 350 people are at risk of losing their jobs⁶⁴. It is a company related to the renovation and construction industry: ceramic tiles are used in the finishing of properties that were largely destroyed in Ukraine during the war. Virtually none of these types of companies (as well as smaller ones) will wait for the end of the war, and Ukraine will not be a targeted bailout for their businesses, but only an option to improve their situation and an opportunity for a new market.

The main problem plaguing Polish industry is the price of energy and energy raw materials. Through the embargo on Russian oil, gas, as well as coal – its prices are achieving drastic increases. For example, in the case of electricity, they increased by as much as 500 percent for enterprises during the year⁶⁵. Of course, companies from other countries are also struggling with high energy prices. At this point, the difference in production costs is becoming more and more blurred. The end of the war in Ukraine does not necessarily mean energy stability, as it is likely that without a change of power in Russia, there is currently no chance of normalizing relations with it, which means that the removal of the raw material embargo seems unrealistic.

In behind-the-scenes conversations among SME entrepreneurs, Ukraine does not appear as a major solution to their current problems or a significant boost to their companies' growth, but only an option that may come along in time. Hence, although the situation regarding a possible large sales market is monitored by companies on an ongoing basis, they are unlikely to undertake capital expenditures to launch their outlets or hire sales representatives on Ukrainian territory. It should also be noted that freight transportation companies have not seen much interest in their services in the past period, and no cumulative work is currently underway to attract customers from Ukraine, or during its reconstruction. They are likely to use intermediaries involved in trade with the country and cooperation with entities already affiliated with it in the past, should the opportunity arise. This is likely to be done through NGOs, such as the Union of Entrepreneurs and Employers, which opened a representative office in Kiev in July 2022⁶⁶. The presence of the Polish Investment and Trade Agency is also noticeable.

After all, the Polish economy may benefit from the reconstruction of Ukraine. If it absorbs such huge resources as is widely proclaimed, some of them may be spent on products and services from Poland. This is due to the geographical proximity of both countries. An important factor may also be the huge number of Ukrainians residing in our country. Thanks to such human resources, if the Ukrainian market becomes attractive, most companies will have opportunities to participate in such a market.

6.4. Entrepreneurs from the large enterprises sector

In contrast to the SME sector, there is interest in rebuilding Ukraine from large private players,

⁶³ <https://finanse.gazetaprawna.pl/artykuly/8519729,inflacja-pkb-techniczna-recesja-stopy-procentowe-rynek-pracy.html>.

⁶⁴ <https://www.money.pl/gospodarka/polski-producent-plytek-ogranicza-produkcje-ponad-350-osob-moze-stracic-prace-6805574541363936a.html>.

⁶⁵ <https://agronews.com.pl/artykul/prad-dla-przedsiębiorców-drozszy-o-500-proc-taryfy-grozy-juz-u-klientów>.

⁶⁶ <https://zpp.net.pl/otwarcie-przedstawicielstwa-zwiazku-przedsiębiorców-i-pracodawców-w-kijowie>.

especially in infrastructure projects such as road and bridge construction. During the first days of the war in Ukraine and the increased arrival of refugees in Poland, large companies hired such people at home as part of their desire to help, and this despite the lack of demand to replenish their staff. This has led to a situation where one could see more Ukrainian women doing office work, often similar in nature to their learned professions. For example, some large law firms have introduced a program to hire female lawyers from Ukraine. Typically, they performed the work stipulated for assistants, as they were not authorized to practice in Poland, nor did they have language skills. In this way, large Polish operators were able to lay a foundation for future expansion. The main interested parties are construction companies.

During an off-the-record conversation with a board member of a major construction group, he suggested that project work is underway to transmit electricity from Ukraine to Poland, and this will be a project of priority in the near future, especially in the context of maintaining the embargo on Russian raw materials. This was also noted by Member of Parliament Przemysław Koperski at a press conference held on 25 May 2022 in the Sejm⁶⁷:

– 15 nuclear units are located in Ukraine, which are concentrated in 4 nuclear power plants, with a total power output of 15 gigawatts. The export capacity of this country is 7 giga-watts. [...] The current that flows from the sockets is ransomed by the purchase of imported coal and gas. We import raw materials worth billions of euros. There is a chance of getting 50–60 percent cheaper electricity from Ukraine. To this end, the connection, which worked brilliantly in the 1980s, should be rebuilt.

Although power transmission to the European

Union was launched on June 30, 2022, this represents only a small percentage of the current demand. Large construction companies know this and will want to be a part of these projects.

Investment in energy transmission channels, as well as in creating conditions for the extraction of raw materials, is being encouraged by Volodymyr Zelenski, who has openly stated that Ukraine is ready to be a country responsible for supplying the European Union with the necessary raw materials, but it is necessary to help with infrastructure projects to do so⁶⁸.

It should be noted that some large construction companies, such as Mirbud⁶⁹ have been present on the Ukrainian market for several years. In the case of Mirbud, a company in Ukraine was established in 2018, but its activities did not go significantly beyond identifying opportunities for potential cooperation, exploring the possibility of operating with subcontractors, and seeking reliable material suppliers. By the end of 2020, it had failed to start any infrastructure project and participated in three tenders with a total value of EUR 88.5 million, however, it failed to win any of them.

Dariusz Blocher, the President of the Management Board of the Budimex Group, also expressed interest in the implementation of construction projects, and the company itself volunteered for the procedure of obtaining orders in the future. Nevertheless, as he points out at this stage, it is difficult to clearly indicate how this will be done: *the application procedure itself does not raise emotions among companies here, except that it is probably premature, since we do not know the conditions under which we will conduct possible work. [...] We do not know what to do with the*

In contrast to the SME sector, there is interest Ukraine's reconstruction by large private entities.

⁶⁷ <https://klub-lewica.org.pl/aktualnosci/2206-tani-prad-z-ukrainy-dla-polski>.

⁶⁸ <https://energia.rp.pl/energetyka-zawodowa/art36964341-zelenski-sklada-ue-energetyczna-propozycje-ukraina-zastapi-rosje>.

⁶⁹ <https://relacje.mirbud.pl/pobierz/822/sprawozdanie-zarzadu-z-dzialalnosci-gk-mirbud-w-2020-roku-pdf>.

financing of the investment, with the announcement of tenders, who will do it, how it will be done, how it will be guaranteed – he said in an interview with the biznes24.pl portal⁷⁰.

At the moment, the only things to suggest are the agreements reached in Lugano, which set the general directions, as well as the general program records seen on the government's reconstruction website for Ukraine⁷¹. To date, the bidding procedures and the exact budget provided for the country's reconstruction have also not been defined. According to Ukrainian assumptions, \$150-250 billion is to be spent over 10 years to rebuild and modernize housing and regional infrastructure, and between \$120-150 billion to align its logistics with European Union countries. Private companies, such as the aforementioned Budimex, have begun to train their cadres and have started cooperation with universities to prepare Ukrainian personnel to implement infrastructure projects in accordance with modern technologies. At this stage, it is difficult to say exactly how the whole procedure will be carried out. So far, more than 1200 companies have applied for the reconstruction of Ukraine⁷², including all the largest construction companies operating in Poland.

Due to their geographical proximity, Polish companies are present on the Ukrainian market. There was also extensive trade between the two countries. In 2020, Poland was Ukraine's third largest trading partner after Germany and China⁷³, and the total value of trade amounted to USD 7.36 billion. The main components of Polish exports were: electromechanical industry (32.4 percent), chemical industry (21.2 percent), agricultural industry (14.4 percent), and also light industry goods (9.4 percent).

It should also be noted that subsidiaries of Polish factories have been operating in Ukraine for many years, such as Cersanit which has one production facility in the Zhytomyr region in western Ukraine, and others even have their own display stores. Also present is CCC, which is among the 20 largest companies registered on the Warsaw Stock Exchange and has 18 stores in Ukraine⁷⁴. **Large Polish companies have invested their funds in Ukraine for many years, especially after 2008, and are present on the market there. During the initial phase of the war effort, they suspended their operations there, however, as the war dragged on and did not currently cover the western areas of the country – some of them restarted production and stores. Although it is not easy to operate in such conditions.**

There are even more connections. PKO Bank Polski is the owner of the Ukrainian Kredobank, which is one of the 16 largest banks in terms of assets and loan portfolio⁷⁵. Polish Wawel holds shares (48.50%⁷⁶) in the company producing sweets – Lasoczi.

A major problem in the context of the competitiveness of Polish exports to Ukraine will be the hryvnia exchange rate. Due to its devaluation after 21 July 2022, the profitability of exports decreased, as noted by Grzegorz Gańsko the president of the dairy cooperative Sierpc: *Violent exchange rate fluctuations threaten the total lack of profitability of imports for Ukrainian distributors*⁷⁷.

Poland's Fakro has three production facilities in Ukraine, set up mainly to optimize tariffs in Russia in order to export cheaper windows to that market⁷⁸. However, as long as trade sanctions are in place and Russia is isolated internationally, Ukraine will not be a country suitable for expan-

⁷⁰ <https://biznes24.pl/co-z-odbudowa-ukrainy-rozmowa>.

⁷¹ <https://recovery.gov.ua>.

⁷² <https://www.wnp.pl/budownictwo/prawie-1200-polskich-firm-zglosilo-chec-odbudowy-ukrainy,617290.html>.

⁷³ <https://firma.rp.pl/nowe-rynki/art17062471-polska-trzecim-najwiekszym-partnerem-handlowym-ukrainy>.

⁷⁴ <https://www.wiadomoscihandlowe.pl/artykul/zamknieto-sklepy-ccc-ukrainie-spolka-wstrzymala-transport>.

⁷⁵ <https://www.pkobp.pl/grupa-pko-banku-polskiego/spolki-w-grupie-pko/kredobank>.

⁷⁶ <https://www.wiadomoscihandlowe.pl/artykul/wawel-niepewny-biznesu-na-ukrainie>.

⁷⁷ *Ibidem*.

⁷⁸ <https://www.money.pl/galerie/artykul/oto-7-polskich-firm-ktore-moga-stracic-na,54,0,2201654.html>.

sion to former post-Soviet countries. Companies that have opted for this type of solutions may be in a bad position. The Ukrainian market of about 40 million people is much smaller than the Russian market with 144 million people, who have so far bought products made in Ukraine by foreign manufacturers. As compensation, therefore, it will be important to minimize tariffs when exporting goods to the European Union, which currently typically range from 2 percent to 20 percent of the price of the goods. The Free Trade Area Agreement, which has lowered tariffs on certain products (such as agriculture), has been temporarily applied since 2016, and is expected to cover minerals from 2023⁷⁹. Low tariffs will allow production in Ukraine and the competitiveness of players there in the European Union market, which is important from the point of view of large companies.

6.5. Investments by western corporations interested in Ukrainian market and low production costs in post-war Ukraine

Ukraine needs foreign investment, and it needs it despite the military conflict still ongoing on its territory. Among other things, a program for foreign investment has been announced, and its originators want to get investments of up to \$400 billion this way. There is a very high demand for foreign capital, as the Ukrainian Minister of Development, Julia Svyrydenko, said in an interview⁸⁰: *Today we are not asking for humanitarian aid. We are asking for investments that can provide Ukraine with a development opportunity. [...] It may be said that it is too early to ask for foreign direct investment, but for businessmen, for those who are willing to take risks and understand that those who come first will reap the most benefits.* **Foreign investors could also take advantage of the period of continued uncertainty during the protracted war to explore opportunities and prepare projects for when the situation**

stabilizes. Significantly, due to Ukraine's history of corruption, its authorities are proposing that during foreign investment, procedures should take place under the UK's anti-corruption law. It is among the strictest in the world, along with the US system. Provision was also made to simplify and speed up regulatory procedures, and more than 500 different permit requirements were abolished, while extensive tax breaks were offered.

In addition, Ukrainian authorities acknowledge that Western investors will need special protection in the form of gaining access to World Bank insurance products covering war risks. Volodymyr Zelenski remotely opened the session of the New York Stock Exchange, and in his speech for the occasion encouraged foreign capital to invest. Representatives from companies such as Pfizer, S&P Global, and Bank of New York Mellon attended the meeting. In it, the Ukrainian president assured of a privatization program, and identified key sectors of the economy in which to place capital: military industry, energy, raw materials, technology and agriculture. A dedicated web platform has been launched for this purpose.

Ukraine is not a country where there was no presence of foreign capital and Western corporations. Thousands of companies have subsidiaries or production plants there. For nearly 25 years, its market has seen the presence of, for example, Nestlé (before the war, it had 3 factories and employed about 5,000 workers), DSV (shipping), UPS (courier services), and Carlsberg and Coca-Cola have their production facilities⁸¹. Ukraine is not a novelty for them. Foreign entities have been operating in Ukraine basically since it gained statehood in 1991. During the first days of the Russian invasion, they halted operations, but gradually, as hostilities moved further and further east of the country, they resumed production or provision of services.

⁷⁹ <https://trade.ec.europa.eu/access-to-markets/pl/content/poglebiona-i-kompleksowa-strefa-wolnego-handlu-ue-ukraina>.

⁸⁰ <https://www.ft.com/content/7b562f33-b1fd-459d-8b8e-49a05b0cec5a>.

⁸¹ *Ibidem*.

A major difference between foreign capital in the past and the present is the grand plan for privatization and reconstruction ultimately preventing greater oligarchization of the economy. So far, companies have built their plants, warehouses, or established representative offices, but there has been no current large-scale liberalization of the internal market from other sectors of the economy, including the military industry.

The presence of the Ukrainian president at the opening of the trading session on Wall Street is highly symbolic. He also points to good relations with US authorities and companies, helping to strengthen relations between them. Even with the potential defeat of Ukraine in the war with Russia in the east of the country, the foreign capital accumulated so far will not cease to operate, alternatively, the transfer of a larger part of industry and logistics from the east to the west of the country will be noticeable, as is happening at the moment.

6.6. Practical activities of Polish public institutions

Currently, one of the main public institutions aimed at expanding Polish-Ukrainian economic cooperation is the Ministry of Development and Technology and the Polish Investment and Trade Agency. This also comes from information provided to us by the Foreign Ministry spokesman, Łukasz Jasina⁸²: – *In terms of support for Polish entities in the future reconstruction of Ukraine, the Ministry of Foreign Affairs plays a supporting role. The main role in this area is played by the Ministry of Development and Technology and the Polish Investment and Trade Agency, which in June this year began creating a database of Polish entrepreneurs willing to work for the reconstruction of Ukraine. The next step should be to analyze the specialization and capabilities*

of the companies registered in the database and to conduct industry consultations that will help direct the involvement of Polish companies to implement the right types of projects.

Previous activities of the Polish Investment and Trade Agency also consisted in the establishment of a Polish-Ukrainian business support team. It coordinates the relocation of companies previously operating in Ukraine and helps find new markets for products previously exported to the East. A special hotline has also been launched for companies needing support in relocating business from Ukrainian territory to Poland. As of 1 August 2022, a contact form⁸³ for Polish enterprises wishing to participate in the post-war reconstruction of Ukraine was also activated, which collects information on such entities and aims at systematization of activities and standardization of industries interested in cooperation.

According to the spokesperson of the Ministry of Foreign Affairs, the most important task for Ukraine at the moment is to undertake actions aimed at obtaining the necessary funds and supporting the reconstruction of the country on the international scene: *the Ministry of The Foreign Ministry is taking steps to support funding for Ukraine's post-war reconstruction. Poland is actively seeking financial support for Ukraine in various international forums. Hence, in the near term, it is advisable to continue efforts to support all initiatives in the forums of various international financial institutions (including the World Bank, IMF, EIB, EBRD) and in the European Union for macro-financial support for Ukraine, [...] to support initiatives relating to future financing, [...] to bring about effective solutions at the European level regarding the possibility of confiscating Russian assets and allocating them to cover expenses related to the reconstruction of Ukraine, destroyed by Russia's armed forces.*

⁸² Information obtained from the Foreign Ministry Spokesperson's Office on 2/08/2022.

⁸³ <https://odbudowaukrainy.paih.gov.pl/#formularz-zgloszeniowy>.

In addition, the Foreign Ministry Spokesperson's Office notes that priority will be given to post-war infrastructure projects, including: the restoration of electricity, water supply, drainage systems and basic communications in devastated areas. There are also plans for systemic support for Polish companies already operating in the Ukrainian market or planning to start operations there.

They would mainly be based on instruments of support for Polish direct investments in Ukraine, including the

protection and insurance of such investments, the development of financial solutions (e.g. bundled credits, export credits), instruments supporting the participation of Polish enterprises in various projects carried out in Ukraine, or undertaking joint ventures between Polish entities and Ukrainian entities. The aforementioned system solutions would also be conducive to supporting the marketing promotion in the Ukrainian market – of Polish technological solutions, especially those identified by the Ministry of Foreign Affairs as priority technologies for promotion (technologies concerning cyber security, fintech, agricultural technologies, medical technologies, water technologies, smart cities, green technologies and drones).

The Foreign Ministry also confirms that more detailed talks and activities related to eco-

nommic cooperation in the reconstruction of post-war Ukraine, as well as those related to the promotion of Polish entrepreneurship, have been ongoing for some time: *Both foreign visits by Foreign Ministry executives and meetings with delegations from other countries in the country increasingly include a so-called economic component. The participation of*

Polish companies, the presentation of their offers and meetings with potential partners have gained their permanent place in

official foreign contacts. The instruments of our economic diplomacy are being adapted on an ongoing basis to the changing situation in the global economy and to the evolving needs and expectations of Polish businesses, taking into account various forms of support in specific markets.

In the context of cooperation between state entities, such as State Treasury Companies, the Ministry of State Assets currently has the greatest role in building the field for cooperation. State-owned companies in key sectors, such as energy and the fuel industry, should consider participating in the announced privatization because of the realization of the strategic goals of both countries.



SANCTIONS



7. Summary and recommendations

Currently, Polish entrepreneurs in the SME sector, due to the many difficulties in the local market, are unlikely to be interested in investing in Ukraine. The low purchasing power of Ukrainians means that its market is not a remedy for them to solve the problems of the coming crisis. However, in the future, with access to raw materials, cheap skilled labor, SMEs may look to the local market for suppliers or subcontractors. If significant support is launched in connection with the implementation of the reconstruction program, the Ukrainian market may become more attractive. For large Polish companies, if the situation settles down, there is a chance for new investments. Certainly, Ukraine can also become attractive for any construction companies and those in the renewable energy sector.

The Polish public administration is focusing on building soft Polish-Ukrainian relations in terms of business and the potential expansion of companies into the Ukrainian market. The main role will be played by the State Agency for Investment and Trade.

Although large multinational companies (including Polish ones) are likely to remain in Ukraine after the war ends, a redefinition of their role in the Ukrainian economy will be needed. Until now, Ukraine has been the place for most of them to produce goods for export to the Russian market and post-Soviet area countries. At the moment and in the near future, these fields may be closed to these companies, but perhaps with the revival of domestic demand due to subsidies, the possi-

bility of participation in large-scale privatization, and the possibility of cheap production – they will find a way to operate in the new reality.

The synthesis of reports and publications created by other institutions, the collection of a range of materials, including expert opinions, allowed us to assess the work done so far and make our recommendations to the Ukrainian side and its partners, who will participate in both the reconstruction process itself and its financing. The authors of most of the publications to date agree with the thesis that the infrastructure under construction should be more advanced, more environmentally friendly, more useful than the one destroyed by the Russians. Less energy-intensive settlements (and even entire cities) will bring Ukraine closer to another goal, energy independence. A strong focus on "green reconstruction" is, in a sense, a way to maximise subsidies. The Ukrainians realize how important this topic is to the European Union authorities, so they will use ecological arguments in the negotiations, aimed at showing that Ukrainian reconstruction coincides with ecological ideas. We point out that ecology is important, but it is important to remember that excessive ecological requirements should not slow down and scale back the costs associated with reconstruction.

Undoubtedly, integration with the European Union would allow access to a huge market and financial support, which would fuel the Ukrainian economy. We also recognize the need to de-oligarchize, establish the independence and sovereignty of the judiciary, and strive for the standards of the rule of law that the Europeans uphold. On economic issues, we also recommend pursuing credibility and stability in public finances, as well as guaranteeing a competitive regulatory environment. These are all things that the authors of all reports on the issue of reconstruction of Ukraine agree with. Beyond these somewhat obvious recommendations, we offer our own, largely distinguishing from the accepted narrative.

- 1. TAKE ADVANTAGE OF THE COUNTRY'S UNIQUE WAY OF GOVERNANCE TO DEOLIGARCHIZE.** Attempts to deoligarchise Ukraine have so far had limited effectiveness. As long as Volodymyr Zelenski has the opportunity to rule through presidential decrees, it is necessary, based on this opportunity, to efficiently minimize oligarchic influence and connections. If the opportunity to exercise power in this way is lost, Ukraine may not have a second chance to change its system quickly and beneficially. At the same time, Ukraine should establish a strong anti-monopoly authority to order the division of monopolies resulting from oligarchic arrangements if it proves their harm to the market. In addition to a strong antitrust institution, a fair antitrust law is needed to guarantee respect for property rights.
- 2. SMART WAY PRIVATIZATION, NOT THOUGHTLESSLY.** Privatization must be carried out in a rational manner. The most optimal idea may not be to privatize during the war. By holding off on privatizing some enterprises until peace, it will be possible to get better prices for assets. At the same time, it is worth considering the construction of a capital market in Ukraine, so that privatization can thus be carried out more efficiently. However, there is no need for a new stock exchange to be established in Ukraine. Already, Ukrainian companies are listed on the Warsaw Stock Exchange, which even publishes the WIG UKRAIN index.
- 3. TAX HAVEN.** Ukraine should become extremely fiscally competitive. The coming years, thanks to external subsidies and humanitarian support, will not require such a high tax charge on companies to balance the budget. This can simplify and reduce taxes to encourage companies to open subsidiaries, as well as encourage professionals (especially in the IT sector) to become tax residents and build Ukraine's innovative economy. It may also encourage some refugees to return.

4. **HUMAN FOREIGN CAPITAL.** In anti-monopoly and anti-corruption organizations, foreign specialists who are less prone to corruption should sit in key positions alongside Ukrainians. In addition, international observers should be invited to oversee the process.
5. **RAPID RECONSTRUCTION OF HOUSES.** The program to rebuild the housing base should be started as soon as possible in order to have the capacity to offer housing to refugees. The longer the reconstruction process takes, the more people will be left out of the country forever. Funding for new housing construction should depend on specific cases. Where reconstruction of damaged facilities is concerned, funds obtained from funds seized from Russia and external grants should be used. After that, housing should be made available for free, but construction costs should be at least partially compensated with rent. After a reasonable period of time and repayment of part of the construction cost, they should become the property of the people who lived in them or their descendants. The prospect of owning property should bring people closer to making a decision to return to the country. The reconstruction itself should be carried out primarily with the participation of private companies.
6. **LIMITING THE ROLE OF THE CENTRAL GOVERNMENT.** Decentralization of the country should take place in such a way that local authorities should be able to apply for grants directly to the institutions that provide them without the intermediation and participation of the Ukrainian government.
7. **FOREWARNED COUNTRY IS FOREARMED.** Once peace is achieved, businesses and individuals should have access to credit that is not significantly more expensive than in European Union countries. To achieve this, Ukrainian loans taken out by companies and individuals should be insured by the Ukrainian government in such a way that in the event of a renewed conflict, the insurance would partially cover the interest and principal installment, and in the event that the borrower is directly affected by the armed conflict (e.g., the destruction of an asset it owns in a bombing), the loan would be covered by the insurer. This will reduce the cost of risk and create a functioning financial market.
8. **SEPARATION OF COORDINATION AND CONTROL.** We agree that coordination of the reconstruction project should be carried out by a central institution set up for this purpose, but another body should control how the funds are spent to avoid pathological situations. Simultaneous control and coordination creates some conflict of interest. Doubts may arise that if funds were misspent, it means that some error may have occurred in the process of coordinating them. In such a situation, the coordinating and controlling institution may try to cover up some mistakes. Transferring all of the funds directly to the Ukrainian authorities or the reconstruction coordinating institution, which would have to manage the funds themselves, could be problematic due to the difficulty of control and the risk of corruption.
9. **ESTABLISHMENT OF A SUPERINSTITUTION ALLOCATING PUBLIC FUNDING.** The resulting reports say a lot about centralizing the coordination of the reconstruction process, but it is worth thinking about a centralized system of allocation and control. In line with the previous point, assuming that coordination and control functions should be separated, it would be necessary to create an institution that would be a kind of mirror image of the reconstruction coordination institution, only that it would be responsible for allocating and controlling the funds received. It could be established at the initiative and with the participation of the major reconstruction funding institutions: European Union, the European Bank for Reconstruction and Development, the European Investment Bank, the Organisation for Economic Cooperation and Development, the governments of states (in particular the USA) and their subordinate institutions. The aforementioned stakeholders

could delegate their representatives to this institution, and the latter would be able to coherently evaluate projects developed by the Ukrainian government, local authorities, or institutions coordinating reconstruction. The institution would consolidate the various streams of public funding, allocate them, defining milestones and distribution into tranches, and monitor the progress of their disbursement on an ongoing basis. If each institution finances different projects separately, the inflow of funds may proceed in an uncoordinated, uneven manner. Other benefits of such a system are the reduction of bureaucracy, as procedures for obtaining public funds would be standardized, there would not have to be many control institutions verifying progress, and there

would not have to be many anti-corruption bodies at the international level. Such an institution, through extensive cooperation with stakeholders and the reconstruction coordinating body, could accelerate the reconstruction process. Of course, this would not exclude the possibility of initiatives directly implemented by the private sector or institutions that will not participate in the creation of such an institution. Participation in such a system would be voluntary and unlikely to target non-public initiatives. Such an arrangement is reasonable only on the condition that the institutions actually mentioned are willing to work together as a single organization, and if the authority itself is the decision-making body on behalf of these institutions.



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